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# INITIAL SEQUESTRATION REPORT FOR FISCAL YEAR 1987

## HEARING

BEFORE THE

## TEMPORARY JOINT COMMITTEE ON DEFICIT REDUCTION

OF THE

## UNITED STATES SENATE

AND THE

## HOUSE OF REPRESENTATIVES

NINETY-NINTH CONGRESS

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SEPTEMBER 11, 1986

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# INITIAL SEQUESTRATION REPORT FOR FISCAL YEAR 1987

THURSDAY, SEPTEMBER 11, 1986

U.S. SENATE AND THE
U.S. HOUSE OF REPRESENTATIVES,
TEMPORARY JOINT COMMITTEE ON DEFICIT REDUCTION,
*Washington, DC.*

The Temporary Joint Committee met, pursuant to notice, at 11:50 a.m., in room SR-325, Russell Senate Office Building, Hon. William H. Gray (chairman of the committee) presiding.

Present: Senators Domenici, Kassebaum, Grassley, Kasten, Gorton, Danforth, Chiles, Hollings, Johnston, Sasser, Hart, and Exon; Representatives Gray, Lowry, Derrick, Williams, Wolpe, Frost, Fazio, Russo, Boxer, MacKay, Slattery, Atkins, Latta, Martin, Fiedler, Gradison, Boulter, Brown. and Mack.

Mr. GRAY. The Joint Committee will now come to order.

As per our agreement at the first meeting, under the alternating Chair rule, the Chair passes to the chairman of the Senate Budget Committee. I would so move that Chairman Domenici chair the session of the Joint Committee here on the Senate side in reference to the OMB/CBO order.

If there is no objection, it is so moved. Chairman Domenici, here is your gavel of authority.

Chairman DOMENICI. Thank you very much.

Mr. GRAY. And I am glad to pass it on to you.

Chairman DOMENICI. Thank you very much.

Can we have order? We have a lot of Members of the U.S. House and Members of the Senate who have been patient with us, and I am sure they all have a lot to do.

Let me also indicate that we have once again received excellent cooperation from our witnesses, and if they are here, we have two official witnesses, and if it is the pleasure of the committee, we will hear from the third who is here, the Comptroller General.

## AGENDA

The agenda that I had prepared before this hour, which I was going to quickly share with the members of the Joint Committee was after the meeting was called to order, that we would have some opening statements. I am wondering now if there would be any objection to departing from that and not having any opening statements, and proceed to the witnesses, reserving our opening statements until they have testified.

Is there any objection to that?

All right. Without objection, we will proceed. I think everybody understands the purpose of this hearing. It is to take testimony from OMB and CBO who are charged under the statute laws of our country of arriving at a snapshot or a photograph of the current state of the deficit and then meeting together to arrive at the compromise, which is an official order. We understand they have done that. And the purpose of this hearing is to hear from them and to inquire of them so as to assure ourselves, as I understand it, that they have done their job as required by law.

With that, might I ask if the Director of OMB, Mr. Miller, is prepared to testify, and if Dr. Rudy Penner, the Director of the Congressional Budget Office, is prepared to testify?

Dr. PENNER. Yes, sir.

Dr. MILLER. Yes, sir.

Chairman DOMENICI. Let us proceed in the following manner. We will first hear the opening statements of Mr. Miller and then of Mr. Penner, and then we will inquire of both.

Mr. Miller, please proceed.

## TESTIMONY OF DR. JAMES C. MILLER III, DIRECTOR, OFFICE OF MANAGEMENT AND BUDGET, ACCOMPANIED BY TIMOTHY J. MURIS, EXECUTIVE ASSOCIATE DIRECTOR

Dr. MILLER. Thank you, Mr. Chairman.

I would like to say that I am delighted to be here to testify with my old colleague from the American Enterprise Institute, a fellow economist with whom I have done a lot of policy analyses over the years. I just would like, as a matter of record, to indicate that I do not mean to be establishing any precedent that members of the executive branch should normally testify with employees of the legislative branch of Government. Sometimes we have trouble holding our own, just being single witnesses, against an array of legislators. So I would like to just state that for the record this is a joint report, and I think it is perfectly appropriate for us to be testifying together.

Well, Chairman Domenici and Chairman Gray and members of the committee, I am pleased to have this opportunity to discuss with you the initial sequestration report [1] for fiscal year 1987 prepared by the Office of Management and Budget and the Congressional Budget Office.

I would like to make three points. And after I do that, as you indicated, Mr. Chairman, I would be happy to address your questions.

### CBO/OMB DIFFERENCES EXPLAINED IN REPORT

Now, the first, despite the tight deadlines imposed by Gramm-Rudman-Hollings, I think we were able to produce a thorough report that meets the act's specifications. Now, this required a professional job by both OMB and CBO. We tried to make our economic projections realistic to the best of our abilities. We tried to follow the law with respect to interpretations as faithfully as possible. The fact that we did not agree in every situation reflects quite in-

[1] See the "Federal Register," pt. VI, Wednesday, Aug. 20, 1986.

dependent and good faith judgments that were made by the respective agencies.

Now, we tried to also identify and explain carefully our differences. Our deficit estimates for 1987 are $14.4 billion apart. I just want to emphasize that it's a small difference between two very, very large numbers, $1 trillion plus in outlays, $800 billion plus in receipts. Now, however, this $14.4 billion is only 1½ percent of total outlays and, in that sense, the differences are small. Most of our differences are in interpreting which items to include in the base and which not, and how, and not due to differences in economic assumptions.

### NOT A SEQUESTER REPORT

The second point I want to make is that I want to emphasize that our initial August report is not a sequester. Under Gramm-Rudman-Hollings and its fallback provision now in effect because of the Supreme Court's decision in Synar, funds would be withheld only upon enactment of a sequester resolution. Such a resolution—a temporary withholding of funds—is up to Congress. A second resolution—permanently sequestering funds—would come before Congress only if our next sequestration report, nearly 4 weeks hence, October 6 to be precise, finds that insufficient deficit-reducing action has taken place.

A related point is that OMB's and CBO's discretion in developing both the August and October reports, and the President's discretion in ordering a sequester, if necessary, are very closely circumscribed. OMB's and CBO's discretion in formulating the reports is solely that of estimating the prospective deficit, under very special and strict rules. Once the initial August report has been completed, our discretion in preparing the final October report is even more tightly circumscribed. In effect, we can modify our initial estimates only for the effects of new legislation or new administrative actions. In short, once the prospective deficit figure is determined in August, as we have done, the rest of the process is mainly arithmetic.

### CONGRESS MUST ACT TO AVOID SEQUESTER

The third point I want to make is the situation with respect to the deficit and a possible sequester is serious, but not hopeless. Congress must come up with about $10 billion in deficit reduction relative to the Gradison baseline to avoid a sequester or a requirement for a sequester in 1987. And it must come up with about $20 billion in savings to reach the $144 billion target as the Gramm-Rudman-Hollings law requires. Now, this assumes, of course, there is no congressional action to increase the deficit in the meantime. We believe that deliberately imposed budget cuts that reflect priorities is preferable to an across-the-board sequester. We are against that.

### RECONCILIATION SAVINGS BASED ON OUTMOTED BASELINE

Now, the necessary savings, I believe, are well within the range of budgetary and political feasibility. And I am happy to say that it

appears the leadership of both Houses is working to accomplish them. Action on reconciliation, while holding the line on appropriations, offers the most viable path to achieving this objective. However, reconciliation savings figures must be viewed great caution. The $9.2 billion savings figure in the Congressional Budget Resolution and savings estimates accorded recent House and Senate reconciliation packages are relative to a CBO baseline that was established last spring, not relative to the Gradison baseline, named for your colleague, Congressman Gradison, which, according to law, our sequestration report has to be developed against.

Our own estimates of the Senate and House reconciliation packages' savings relative to the Gradison baseline are $3.2 billion and $0.3 billion, respectively. Clearly, more savings must be achieved and quickly, I believe, if we are going to avoid the need for a sequester.

Let me just say in conclusion I think avoiding a sequester is imminently possible. I know that Members of Congress have indicated to me their interest in avoiding a sequester. I think a reconciliation package along the dimensions I have just indicated is the best way to go, and it is imminently feasible that we accomplish that.

Mr. Chairmen, that is the end of my prepared statement, and I will be glad to take questions from you and the other members of the committee at your convenience

Chairman DOMENICI. Thank you very much, Mr. Miller.

I understand that your prepared remarks are longer than your statement, more inclusive. Did you read your prepared remarks?

Dr. MILLER. I read my prepared remarks with a few enrichments that were appropriate at the place.

Chairman DOMENICI. Then we need not incorporate the text.

Dr. Penner, would you proceed in the same manner, please?

## TESTIMONY OF DR. RUDOLPH G. PENNER, DIRECTOR, CONGRESSIONAL BUDGET OFFICE

Dr. PENNER. Yes, sir.

I am very pleased to be here to speak to our report. Director Miller has covered many of the basic points. Let me just summarize the first part of my prepared statement.

Table 1 in that statement, which shows the key numbers, shows that CBO estimated a deficit of $170.6 billion and OMB $156.2, for an average of $163.4.

Table 2 breaks down to the differences that were just referred to and substantiates the point that the differences did not emanate from the economic assumptions as much as from technical assumptions—largely differences in defense outlay estimates, agricultural outlay estimates, and the differences in the interpretation of the law that Director Miller referred to.

### SEQUESTER CALCULATIONS COMPLEX

Let me just make a few points about the sequester calculations themselves. While everyone hopes that a sequestration can be avoided, CBO and OMB were required to show the amounts and percentages by which various budgetary resources must be sequestered in order to eliminate the full excess deficit.

The calculations are complex and are described in full detail in our report.[1] I would emphasize only a few points.

### REDUCTIONS MORE SEVERE THAN PERCENTAGES IMPLY

The across-the-board sequestration percentage for defense programs is 5.6 percent, and for nondefense 7.6 percent. The defense percentage is lower than the nondefense because the military personnel accounts are not exempt from sequestration in 1987, which has the effect of increasing the defense outlay base.

A large part of the budget is either exempt from sequestration or is unaffected by it. As a consequence, the reductions are concentrated in about 40 percent of total outlays. To get $19.4 billion in outlay reductions, an even larger amount in new budget authority and other spending authority has to be sequestered. For example, defense spending authority has to be reduced by $19.1 billion in order to get outlay savings of $9.5 billion. This calculation indicates that a sequestration would reduce spending for a number of years following 1987.

A 1987 sequestration of 5.6 percent for defense and 7.6 percent for nondefense programs would be much more severe than these percentages imply. First, these reductions would be on top of the 1986 sequestrations. Second, the reduction in real terms would be even greater because of the loss of any adjustment for inflation in 1987. The combined effect suggests reduction from the original 1986 appropriation levels of close to 13 percent for defense spending—in real terms—and 14 percent for nondefense.

### ACT MUST BE AMENDED

In addition to the conceptual issues involved in defining the base, CBO and OMB differed on whether the sequestration applied to the Washington Metropolitan Area Transit Authority and other interest accounts and to Veterans Administration policy loans. There is now no third party to resolve these differences and, therefore, the sequestered amounts are averaged. Both CBO and OMB agree that averaging makes no sense whatsoever. Unfortunately, under the fallback procedure, the Joint Committee cannot change our report. The problem can be solved only by amending the Balanced Budget Act. The Senate-passed amendments to the Balanced Budget Act would resolve most of our conceptual differences. The effect, however, would be to raise the averaged CBO/OMB estimate of the 1987 deficit by about $4 billion.

In conclusion, I would like to thank Jim for all of his cooperation during this effort. Our working relationship with OMB remained excellent. And I would like also to praise the OMB/CBO staffs for their arduous work on this complex task. The work was directed by James Blum on our side and Carey P. Modlin on the OMB side. The staffs have been working on the report since May. All of the detailed work was done in the last few weeks at the same time as we faced a flurry of legislative activity and our summer budget update reports.

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[1] See the "Federal Register," pt. VI, Wednesday, Aug. 20, 1986.

But, as in January, the task was accomplished with the utmost professionalism and good humor, and for that the staffs of both offices deserve a lot of praise.

Chairman DOMENICI. Thank you very much.

Your prepared remarks will be made a part of the record.

[The prepared statement of Dr. Penner follows:]

## PREPARED STATEMENT OF DR. RUDOLPH G. PENNER, DIRECTOR, CONGRESSIONAL BUDGET OFFICE

I am pleased to have the opportunity to discuss the initial sequestration report for fiscal year 1987. My statement this morning will cover the highlights.

### BUDGET BASE LEVELS

The budget estimates contained in the report follow the specifications of the Balanced Budget and Emergency Deficit Control Act of 1985 or, more briefly, The Balanced Budget Act. They are based on laws and regulations in effect on August 15--the so-called "snapshot" date--and on appropriations for fiscal year 1986 since no appropriations for 1987 have been enacted. The Congressional Budget Office's (CBO's) estimate of the deficit is $170.6 billion and the Office of Management and Budget's (OMB's) estimate is $156.2 billion, as shown in Table 1.

The major reasons for the difference are summarized in Table 2. The largest difference is technical in nature. CBO estimates a higher spendout rate for defense and a higher cost of agricultural programs than does OMB.

TABLE 1. BUDGET BASE LEVELS FOR FISCAL YEAR 1987 (In billions of dollars)

| Budget Aggregates | OMB Estimates | CBO Estimates | Average |
|---|---|---|---|
| Revenues | 826.4 | 827.8 | 827.1 |
| Outlays | 982.6 | 998.5 | 990.5 |
| Deficit | 156.2 | 170.6 | 163.4 |

SOURCES: Congressional Budget Office and Office of Management and Budget.

These and other less important technical differences account for $8.8 billion or 60 percent of the total difference between our estimates.

Conceptual differences in how to apply the Balanced Budget Act's specifications amount to another $4.7 billion. These differences involve the treatment of appropriated entitlements and allowances for federal pay raises, and are discussed in some detail in our report.

TABLE 2. DIFFERENCES BETWEEN OMB AND CBO BASELINE DEFICITS (In billions of dollars)

| | |
|---|---|
| OMB Deficit | 156.2 |
| Differences: | |
| Conceptual: | |
| Appropriated entitlements | 1.7 |
| Pay raises: | |
| Defense | 2.8 |
| Nondefense | 0.1 |
| Subtotal, conceptual | 4.7 |
| Technical: | |
| Defense function | 5.2 |
| Farm price supports | 5.1 |
| Other outlays | 0.7 |
| Receipts | -2.2 |
| Subtotal, technical | 8.8 |
| Economic: | |
| Receipts | 0.7 |
| Outlays | 0.2 |
| Subtotal, economic | 0.9 |
| Total differences | 14.5 |
| CBO Deficit | 170.6 |

SOURCES: Congressional Budget Office and Office of Management and Budget.

Differences in economic assumptions account for only about $1 billion of the difference between CBO's and OMB's deficit estimates. The economic assumptions of the two organizations are compared in Tables 3 and 4.

The law instructs CBO and OMB to average their deficit estimates, which results in a deficit estimate of $163.4 billion. This amount is $19.4 billion above the 1987 target of $144 billion. Because the law allows a $10 billion margin of error, only $9.4 billion of this excess must be removed by legislation in order to avoid the specter of sequestration. If sequestration occurs, however, it would involve spending reductions of the full amount of the excess deficit, or $19.4 billion.

TABLE 3. ECONOMIC ASSUMPTIONS (Fiscal Year 1987)

| Economic Variable | OMB | CBO |
|---|---|---|
| Gross National Product: | | |
| Current dollars (in billions of dollars) | 4,449 | 4,423 |
| Percent change, year over year | 6.8 | 6.2 |
| Constant (1982) dollars (in billions of dollars) | 3,797 | 3,777 |
| Percent change, year over year | 3.7 | 3.2 |
| GNP Implicit Price Deflator (percent change, year over year) | 3.0 | 2.9 |
| CPI-W (percent change, year over year) | 2.1 | 2.6 |
| Civilian Unemployment Rate (percent, fiscal year average) | 6.7 | 6.8 |
| Interest Rates (fiscal year averages): | | |
| 91-day Treasury bills | 6.2 | 6.3 |
| 10-year Treasury notes | 7.5 | 7.7 |

## SEQUESTRATION CALCULATIONS

While everyone hopes that a sequestration can be avoided, CBO and OMB were required to show the amounts and percentages by which various budgetary resources must be sequestered in order to eliminate the full excess deficit. The calculations are complex and are described in full detail in our report. (They are summarized in Table 5 of this testimony.) I would emphasize only a few points:

- The across-the-board sequestration percentage for defense programs is 5.6 percent and for nondefense programs is 7.6 percent. The defense percentage is lower than the nondefense because the military personnel accounts are not exempt from sequestration in 1987, which has the effect of increasing the defense outlay base for the across-the-board cuts.

TABLE 4. REAL ECONOMIC GROWTH RATES BY QUARTER (In percents, annual rates)

| | Fiscal Year 1986 | | | Fiscal Year 1987 Estimates | | | |
|---|---|---|---|---|---|---|---|
| | Actual | | Estimate | | | | |
| | Jan-Mar 1986 a/ | Apr-Jun 1986 a/ | Jul-Sep 1986 | Oct-Dec 1986 | Jan-Mar 1987 | Apr-Jun 1987 | Jul-Sep 1987 |
| OMB | 3.8 | 1.1 | 4.0 | 4.0 | 4.2 | 4.2 | 4.2 |
| CBO | 3.8 | 1.1 | 3.0 | 3.6 | 3.9 | 3.7 | 3.3 |

SOURCES: Congressional Budget Office and Office of Management and Budget.

a. As reported by the Department of Commerce (July 22, 1986).

TABLE 5. SEQUESTRATION CALCULATIONS FOR 1987 (Outlays in millions of dollars)

| Category | OMB | CBO | Average |
|---|---|---|---|
| Defense Programs: | | | |
| Total required reductions | 6,086 | 13,323 | 9,704 |
| Estimated savings from automatic spending increases: | | | |
| Indexed retirement programs a/ | 139 | 221 | 180 |
| Amount remaining to be obtained from uniform percentage reductions of budget resouces | 5,947 | 13,102 | 9,525 |
| Estimated outlays associated with across-the-board sequestrable budget resources | 164,330 | 173,635 | 168,983 |
| Uniform reduction percentage | 3.6 | 7.5 | 5.6 |
| Nondefense Programs: | | | |
| Total required reductions | 6,086 | 13,323 | 9,704 |
| Estimated savings from automatic spending increases: | | | |
| Indexed retirement programs | 139 | 221 | 180 |
| Other indexed programs | 7 | 7 | 7 |
| Estimated savings from the application of special rules: | | | |
| Guaranteed student loans | 29 | 31 | 30 |
| Foster care and adoption assistance | 2 | 2 | 2 |
| Medicare | 1,115 | 1,240 | 1,178 |
| Other health programs | 164 | 161 | 163 |
| Amount remaining to be obtained from uniform percentage reductions of budget resources | 4,631 | 11,661 | 8,146 |
| Estimated outlays associated with across-the-board sequestrable budget resources b/ | 108,350 | 106,998 | 107,674 |
| Uniform reduction percentage | 4.3 | 10.9 | 7.6 |

SOURCES: Congressional Budget Office and Office of Management and Budget.

a. These retirement programs are not included in the national defense function of the budget; most are included in the income security function.

b. Includes estimates 1988 outlays for the Commodity Credit Corporation (CCC) that can be affected by a 1987 sequestration (see discussion of special rule for the CCC). The OMB estimate is $14,137 million, the CBO estimate is $9,215 million, and the average if $11,676 million.

- A large part of the budget is either exempt from sequestration or is unaffected by it. As a consequence, the reductions are concentrated in about 40 percent of total outlays. To get $19.4 billion in outlay reductions, an even larger amount of new budget authority and other spending authority has to be sequestered. For example, defense spending authority has to be reduced by $19.1 billion to get outlay savings of $9.5 billion in 1987. This calculation indicates that a sequestration would reduce spending for a number of years following fiscal year 1987.

- A 1987 sequestration of 5.6 percent for defense programs and 7.6 percent for nondefense programs would be much more severe than these percentages imply. First, these reductions would be on top of the 1986 sequestrations. Second, the reduction in real terms would be even greater because of the loss of any adjustments for inflation in 1987. The combined effect suggests reductions from the original 1986 appropriation levels of close to 13 percent for defense programs and 14 percent for nondefense programs.

## CONCEPTUAL ISSUES

In additional to our conceptual differences in defining the budget base, CBO and OMB differed on whether the sequestration applied to Washington Metropolitan Area Transit Authority and other interest accounts and to Veterans Administration policy loans. There is now no third party to

resolve these differences and, therefore, the sequestered amounts are averaged. Both CBO and OMB, agree that averaging makes no sense whatsoever. Unfortunately, under the fallback procedure, the Joint Committee cannot change our report. The problem can be solved only by amending the Balanced Budget Act. The Senate-passed amendments to the Balanced Budget Act would resolve most of our conceptual differences. The effect, however, would be to raise the averaged CBO/OMB estimate of the 1987 deficit by about $4 billion.

## CONCLUSION

I would like to end this statement by noting that our working relationship with OMB remained excellent, and by again praising the OMB/CBO staffs for their arduous work on the complex task of producing this report under the direction of James L. Blum and Carey P. Modlin. The staffs have been working on the report since May, with all of the detailed work being done in the last few weeks at the same time as we faced a flurry of legislative activity and our summer budget update reports.

As in January, the task was accomplished with the utmost professionalism and good humor, and for that the staffs of both offices deserve a great deal of credit.



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Chairman DOMENICI. Now, unless there is objection, we will proceed in as orderly manner as we can to inquire of the witnesses if that is the desire of the committee.

Frankly, from my standpoint, I would be willing to defer questions and go to the next witness and then bring the issue of whether we are going to vote out a sequester order.

But if the Joint Committee desires to inquire, we had better set some ground rules right now.

Might I ask the chairman and ranking member of the House committee and Senator Chiles, ranking on our side, to take a few moments and we discuss the proposition.

Do we want to proceed with questions or not?

Mr. GRAY. The sentiment seems to be on the House side that we want to proceed as quickly as possible, that there are no questions.

Chairman DOMENICI. What about on our side, Senator?

Senator EXON. Question.

Chairman DOMENICI. Senator Exon.

Senator EXON. If these witnesses are dismissed, does that mean that we will not have a chance to question them at all?

Chairman DOMENICI. The proposition that I have put before the committee is nothing more than my expressed opinion. If we desire to inquire, let me suggest that, in the interest of getting this work done, that we agree to a time limit on each side and then divide it up.

Does Senator Exon——

Senator EXON. I have a question and I do not want to get out of line on seniority here.

Chairman DOMENICI. Not at all.

Senator EXON. Frankly, I would object to dismissing these witnesses without any question because, while I know there is a rush to get this over with, I think that we at least ought to have a pretense of and the right to ask some questions about some very vital things as to how they arrived at their calculations.

Chairman DOMENICI. Let me suggest then, if it meets the pleasure of the Joint Committee, that we agree at this point that there would be 15 minutes of questions on each side, to be utilized by the respective members of each side at the discretion of the Chair when it comes to exercising the discretion. With reference to the House members, I would ask that the chairman of the House Budget Committee exercise that discretion.

Senator Exon, let me just say with reference to your statement about pretense of hearing from them, frankly, from what this Senator understands, we have very limited responsibility. It seems to me the statute is pretty clear that we either vote out the resolution or we do not, or we delay it long enough to be discharged. I do not believe we have the authority to modify the order that is pending before us that was issued by the two institutions. And I guess unless we found that they had in some way violated the responsibility, it seems to me that our job is rather clearcut.

But would 15 minutes on each side be adequate?

Mr. FROST. Mr. Chairman.

Chairman DOMENICI. Yes. Representative Frost.

Mr. FROST. Maybe I misunderstood. Would it not be possible to hear the third witness, to keep these two witnesses standing by,

and then ask questions of all three witnesses at one time? Why do we have to stop at this point and ask questions of these two individuals?

Chairman DOMENICI. We do not. It was just thought by the Chair that the two witnesses that did work as proscribed by statute are the two before us. As a voluntary act, the Comptroller did the work and has a report. It is not in any way binding on anyone.

Would the committee then entertain the following? I am more than willing--let me ask these two witnesses could we hear the Comptroller. I assume he would take no longer than they did, and then inquire of all three for a limited time? Can our two witnesses give us another 15, 20 minutes of their time?

Dr. Miller.

Dr. MILLER. Yes, sir.

Chairman DOMENICI. CBO Director?

Dr. PENNER. Yes.

Chairman DOMENICI. All right. Let us proceed in that manner.

Would the Comptroller General take the witness table, and we will hear your testimony.

I thank Representative Frost for the constructive suggestion.

## TESTIMONY OF CHARLES A. BOWSHER, COMPTROLLER GENERAL OF THE UNITED STATES

Mr. BOWSHER. Mr. Chairman, members of the committee, I will summarize my statement here very quickly.

### GAO REPORT ADVISORY

As you are aware, we were requested to perform this review by the chairman of the Committee on Government Operations of the House of Representatives. As you point out, it is advisory at this time because of the Supreme Court decision.

### TAX REVENUE AND ECONOMIC ESTIMATES A CONCERN

We reviewed the combined OMB/CBO report. We came up with some differences in our report, not large differences, about $4 billion above their average, as much as $10 billion above OMB, but we come in somewhat less than CBO. And so that the percentages would be changed somewhat if our estimates were used.

Our main concern, as we said in the letter of our report, is that the review, both by OMB and CBO and ourselves, has been done under a set of guidelines and rules that we worried that at this time next year when we get to the end of fiscal year 1987, the deficit might be larger than what these estimates are showing. This is because of the usual problems of estimating the economy, but also this year in particular because of the new revenue they have billed that will be coming from the tax reform, the quality of those estimates. We also point out that the 1986 base is used in these estimates, and that we have certain programs that are spending out at a pretty high rate right now in defense and in agriculture. In addition, what is not in the estimate are the efforts to shore up some of the financial institutions and the insurance programs, for example.

So those are our concerns which we set forth in our report as to what might be problems down the road in fiscal year 1987.

Now, Mr. Chairman, I think that summarizes our report fairly well, and we would be pleased to take any questions.

[The prepared statement of Mr. Bowsher follows:]

UNITED STATES GENERAL ACCOUNTING OFFICE

WASHINGTON, D.C. 20548

STATEMENT BY

CHARLES A. BOWSHER

COMPTROLLER GENERAL

OF THE UNITED STATES

ON

THE GENERAL ACCOUNTING OFFICE'S

REVIEW OF THE

OMB/CBO INITIAL REPORT

UNDER THE DEFICIT CONTROL ACT

BEFORE THE

TEMPORARY JOINT COMMITTEE

ON THE REDUCTION OF THE DEFICIT

OF THE CONGRESS OF THE

UNITED STATES

SEPTEMBER 10, 1986

I am pleased to appear today before the Temporary Joint Committee to discuss the results of our review of the Initial Sequestration Report for Fiscal Year 1987. That report was submitted to the Congress on August 20 by the directors of the Office of Management and Budget (OMB) and the Congressional Budget Office (CBO).

Our review was performed at the request of Congressman Jack Brooks, Chairman of the Committee on Government Operations of the House of Representatives. This review is advisory only, in light

of the Supreme Court's decision that the role originally assigned to us under the Act was unconstitutional. Our report, Budget Reductions for FY 1987: Review of Initial OMB/CBO Report Under the Deficit Control Act (GAO/OCG-86-4, September 4, 1986) has been provided to your committee.

## DIFFERENCES FROM THE OMB/CBO REPORT

There are some areas in which our estimates differ from the OMB/CBO report. In summary, using the assumptions required by the Deficit Control Act, we estimate a deficit for FY 1987 of $167.6 billion, about $4 billion higher than the average reported by OMB and CBO. This difference is not great given the overall magnitude of the budget. But it suggests that, to reach the target, somewhat higher sequester percentages would be necessary than those reflected in the OMB/CBO report. Using our estimates, the required sequestrations for defense would be 6.7 percent instead of 5.6 percent and for nondefense it would be 9.4 percent instead of 7.6 percent.

Our principal differences from the OMB/CBO report are as follows:

### 1. Economic Assumptions

Our own forecast is that the economy will grow at a rate of 2.8 percent in 1987. This is somewhat slower than CBO's 3.2 percent, and substantially below OMB's 3.7 percent. We also assume somewhat lower interest rates. After reviewing the forecasts, however, we concluded that the differences between ours and CBO's was not great enough to justify producing a third set of

account-by-account estimates. Therefore, we used the CBO assumptions for calculations that are sensitive to economic conditions. The net effect of using these assumptions was to reduce our estimate of the deficit by about $500 million, compared to the average of the OMB and CBO estimates.

2. **Federal Pay Increase**

OMB and CBO disagree over what financing should be assumed for the increase in federal pay rates anticipated for 1987. OMB believes the Act requires an assumption that all costs will be absorbed by the departments and agencies. CBO adopted the assumption in the OMB Midsession Review of the Budget that a substantial part will be financed by additional appropriations. After reviewing the contrasting arguments, we concluded that the CBO approach was appropriate. This accounted for about $1.5 billion of the difference between our estimate and the OMB/CBO average.

3. **Defense Outlays**

OMB and CBO continue to disagree about outlays for defense programs in 1987. In the August 20 report, the difference is about $5.0 billion, excluding the effect of the pay increase. Our analysis, based on our continuing audit work, leads us to conclude that the CBO estimate is more reasonable. This accounted for about $2.5 billion of the difference between our estimate of the deficit and the OMB/CBO average.

4. **Appropriated Entitlements**

OMB and CBO were in disagreement over what the Act requires be assumed with respect to entitlement programs subject to the

annual appropriations process. Consistent with longstanding congressional budgeting procedures, CBO assumed funding for the full cost of the estimated benefits for 1987. OMB included these programs at their 1986 appropriations levels. After reviewing the legislation, we concluded that the CBO estimate was correct for several programs, including three of the largest--Medicaid, Supplemental Security Income, and AFDC. We believe the OMB approach is correct for the other appropriated entitlements. Our treatment of these accounts yielded an estimate $340 million above the OMB/CBO average.

5. Other Differences

Other differences, including our re-estimate of net interest, added about $350 million to our estimate of the deficit.

## UNCERTAINTIES IN THE ESTIMATES

In concluding, I want to stress that all these estimates--OMB's and CBO's, as well as our own--are based on a complex set of tenuous assumptions. Many things can happen to cause revenues, outlays, and the deficit to depart substantially from these estimates.

For example, the estimates for most programs are required to be based on the assumption that appropriations for 1987 will be equal to those for 1986. It will be difficult for Congress and the President to constrain funding levels consistent with that assumption. Similarly, the estimates may understate significantly the costs of responding to urgent or unavoidable requirements.

Those requirements may involve defense, agriculture, or financial institutions, or some problem we don't yet know about.

The state of the economy also creates uncertainty. It is rather sluggish and its future course is very difficult to predict. This, in turn, means that estimates of revenues and outlays are subject to substantial change, depending on the performance of the economy.

A third source of uncertainty is the effect of the pending tax reform bill. It has been estimated that the bill would increase revenues for 1987, while reducing them for 1988 and 1989, but the amount of the change is very hard to estimate. Of course, because the bill has not yet been enacted, its effects are excluded from the current estimates of the deficit.

Considering all these factors together, we think there is a strong possibility that the deficit for 1987 will ultimately prove to be significantly higher than the current estimates under the Act. Thus, if the sequesters estimated in the OMB/CBO report are implemented, the budget deficit may still breach the $144 billion target, unless further action is taken to reduce spending or increase revenues. The extent to which such further action may be warranted will become clearer over the coming months.

That completes my prepared statement. My colleagues and I would be pleased to respond to any questions.

Chairman DOMENICI. It is the chairman's suggestion now as to the three witnesses that we proceed, and that we agree now that we set a time for each side.

I suggest at this time that we allocated 15 minutes to each side for questions, and we will allocate it in the most fair manner possible.

Is there objection to that?

Senator DANFORTH. Mr. Chairman.

Chairman DOMENICI. Yes, Senator Danforth.

Senator DANFORTH. Reserving the right to object, at some point before we vote, will there be an opportunity to at least raise the issue as to the effect, or lack of effect, of the tax bill which we are about to enact on the whole enterprise that we are undertaking?

I know I would like to raise that issue either with the witnesses or with somebody else. I am not sure it could be done in 15 minutes. I will not take more than 2 or 3 minutes but I doubt, considering all the Senators present—I do not want to be hoggish—we can do so.

Chairman DOMENICI. Let me answer it in a general way

Of course, that would be in order subject to whether any of the witnesses, for any reason or another, do not care to answer questions with reference to that.

Maybe sensing that there is a genuine desire here to expedite this process, that it might be better if the chairman withdraws his suggestion and that, in lieu of that, we establish some kind of a time limit for each member if he has any questions.

What would we think at this point about no more than 5 minutes of inquiry by any member? Is that all right? Let us proceed on that basis.

Could we get the three witnesses up here then, please? And I regret to have them all answer at the same time, and I do not intend to establish any kind of a precedent of executive witnesses being required to sit with legislative witnesses, but I believe this is one of the unique situations where they have a joint responsibility.

Senator JOHNSTON. Mr. Chairman, do you plan to vote on the resolution immediately following the questions?

Chairman DOMENICI. It is my desire that instead of the offset that I had an agenda, I changed it slightly on opening statements, but the next item of business would be to put before the Joint Committee the Proposed Order of Sequestration, and that we proceed under the statute to vote on it. There are two or three ways to vote on it. We will discuss it at that point, Senator, but, yes, that is the Chair's desire.

All right. As stated at the first of the hearing, we will place in the record opening remarks by the members.

[The prepared statements of Representative Gray, Representative Latta, Senator Sasser, and Senator Hart follow:]

PREPARED STATEMENT OF HON. WILLIAM H. GRAY III, CHAIRMAN, COMMITTEE ON THE BUDGET, U.S. HOUSE OF REPRESENTATIVES

Today, this joint committee has convened in order to carry out the requirements of the "fallback" procedure under Gramm-Rudman.

On August 20 the joint CBO/OMB report was issued. Congress officially received it Monday, and it was referred to the temporary joint committee for action. We are to act on this report no later than September 13.

Our job is to report to our respective bodies a joint resolution setting forth the contents of the CBO/OMB August 20 report. We cannot amend this report or modify the determinations or reductions in any way. Our role is to transmit the document to the full House and Senate for their consideration. Assuming both bodies pass this joint resolution, it is then transmitted to the President for his signature. If he signs it, the calculations set forth in the report are the basis for the President's initial sequester order implementing the reductions.

It is important for the Members to understand that the reduction under this order will not take effect if Congress does what we have pledged to do—reduce the deficit according to our own priorities. The action to be taken today by this joint committee provides a strong incentive to proceed with the more important task of completing the job begun by Congress to meet the deficit targets. This includes continued restraint on the appropriations process, as well as completing and, if necessary, augmenting the reconciliation process.

As chairman of the House Budget Committee I intend to work these next few weeks with the House leadership and committees to pass the legislation necessary to bring the deficit below the required level before the final deficit projection to be released on October 6.

I feel certain that we can achieve our goal of avoiding the across-the-board reductions set forth in the directors report. Our failure to achieve that goal would be unconscionable.

## PREPARED STATEMENT OF HON. DELBERT L. LATTA, U.S. REPRESENTATIVE FROM THE STATE OF OHIO

We have an enormous task to accomplish—and very little time in which to do it.

Bringing the fiscal year 1987 Federal deficit below the $154 billion Gramm-Rudman trigger is actually a bigger task than we thought last August. On top of the $9.4 billion reported in the first "snaphot," we must also accommodate several spending items before we adjourn. Among these additional items are the drug abuse initiative, the 1987 appropriations bills, and the COLA for Social Security recipients.

We have 15 days of session—including Saturdays—before the final "snapshot" at the end of the month. This Congress is going to have to become very serious about deficit reduction if we want to avoid putting the nation through the wrenching pain of across-the-board cuts in defense, in agriculture, in drug abuse enforcement, in education, in health and in other areas.

This Congress is going to have to give up smoke and mirrors, give up cute little accounting tricks, and give up our now-you-see-it/now-you-don't scorekeeping methods. Because at the end of the month, OMB and CBO are going to add up the results for us.

So I hope we can begin to move briskly to achieve real deficit reduction. We need savings that will hold up—both for fiscal year 1987 and for beyond.

The last attempt at reconciliation was kind of like trying to walk "up" and on the "down" escalator. As advertised, the bill saved some $7 billion in fiscal year 1987. Now, CBO tells us it really saves only $900 million.

House Republicans have put together a package of reconciliation proposals which, together with the tax bill, would get the job done. I hope that we can reexamine these ideas and come up with a package which everybody can agree on and which can move quickly through the House, Senate, and down to the White House.

The time for talk is over. It's time to reduce the deficit.

## PREPARED STATEMENT OF HON. JIM SASSER, U.S. SENATOR FROM TENNESSEE

Mr. Chairman, I would just like to make a brief comment. I must say that I view the current exercise we are going through with some trepidation. It seems that we are being asked to affirm a falsehood. That falsehood is the belief that after all is said and done from the legislative viewpoint, the Federal deficit for the upcoming fiscal year, after some late minute adjustments, will actually come within the $154 billion deficit target mandated in the Gramm-Rudman-Hollings balanced budget legislation.

I simply do not believe that we are being honest with ourselves here. I believe that to accept this sequestration order, would require a giant leap of faith. One must accept that the economy will grow next year somewhere between 3.2 and 3.7 percent, when the General Accounting Office believes that GNP will most likely average 2.8 percent, and the blue chip consensus of economic forecasters believes that the economy will grow at about 2.7 percent. I am aware that forecasting is a tricky

business and fraught with uncertainties, but must we always err on the side of optimism instead of realism.

The exercise will get us through this year, of that I am certain. We have always got the revenue windfall of $9, or $10, or $11 billion from the tax reform bill. I know both the chairman and ranking member on our side have expressed their desire to achieve the savings otherwise and I support them in this effort. But the political reality of the situation, it seems to me, dicates that we will slide by this year, on paper anyway. But next year is really when we will face an intractable problem. I believe it is possible that next year we could be looking at the potential of a $60-80 billion sequester. A sequester of this size would be politically infeasible and absurd from a policy perspective.

As my distinguished colleague from South Carolina has said many times, it's time for truth in budgeting. I fear that that time is not yet here. Thank you.

## PREPARED STATEMENT OF HON. GARY HART, U.S. SENATOR FROM COLORADO

To paraphrase Lincoln, the world will little note nor long remember what we say or do here today. Ours is an ill conceived and ill defined role, working with a sequester procedure that is no longer threating. The Supreme Court removed the teeth from GRH I, and the Congress has sensibly refused to cede the power of the purse to David Stockman's old computers. The current numbers for the coming fiscal year—thanks to economic assumptions and a little help from the tax bill—make it clear we can squeak by election season without major policy changes or a sequester.

Being rid of the automatic across-the-board sequester is good. Being rid of endemic deficits would be better. As usual, that will apparently have to wait until next year. Some argue that we have bravely fought the deficit war and we are winning. They assert that deficits are on their way out because of spending cuts and Congressional restraints. Our $220 billion plus deficit is going to become $153 billion in 1987 and drop another $40 or $50 billion by 1988.

Let's be clear about where this supposed deficit reduction is really coming from—it's coming from the economic assumptions. Even if we made no policy changes, CBO projects that revenues will grow by $60 billion between fiscal 86 and fiscal 87. That, by itself, will take the deficit almost all the way to the targets. The same story is even more clear when looking at the assumptions for fiscal 88—CBO's baseline assumes an additional $90 billion in revenue growth with no changes in policy.

In short, we're trying, once again, to grow out of the deficit. We're counting on revenues being $150 billion higher in 1988—not because of any sensible revenue increases, but because of economic growth. Remember what happened the last time we tried to grow out of the deficit—the worst recession in the post war period and the onset of these $200 billion dollar national credit bills.

If growth falls short of CBO estimates—and most private forecasters expect it will—we're back where we started. We'll face a $50 to a $100 billion sequester next year—a sequester that would cut defense budget authority by unthinkable amounts. But our Nation's defense isn't really on the line any more—the Congress wouldn't pass and the President wouldn't sign such a sequester order. That's for good—we shouldn't put defense or any other programs at risk of such mindless across-the-board hacking.

Our economy and our future are still on the line, however. As strongly as I have disagreed with the methods proposed by Senators Gramm, Rudman, and Hollings, I've agreed all along—and agree now—that real deficit reduction is a necessity. We should be debating revenue increases, including an oil import fee, and real spending changes—from agriculture and entitlements to further defense restraint proposals.

Instead, we are adopting the green eyeshade mentality and arguing over budget arcana such as so-called Gradison baselines and outlay rate assumptions. I oppose this process and I oppose the sequester order mandated by Gramm-Rudman that we are to pass today.

### REVENUE IMPACT OF TAX BILL ON DEFICIT TARGETS

Chairman DOMENICI. I will withhold on questions on my side—well, no, I will not.

Let me ask one. Somebody get the 5 minute clock working.

Mr. Miller, with reference to the tax bill that is pending in conference, have you received some preliminary estimates as to the effect of the tax bill on the 1987 revenue base?

Dr. MILLER. Yes, I have.

Chairman DOMENICI. And with reference to the current estimates of that bill, are you aware of the fiscal year 1988 and fiscal year 1989 estimates on the impact on revenues?

Dr. MILLER. Yes.

Chairman DOMENICI. Is it fair to say that the current estimate is that there will be an $11 billion revenue add-on or windfall, so as to speak, in fiscal year 1987?

Dr. MILLER. Yes.

Chairman DOMENICI. To be followed by a fiscal year 1988 and fiscal year 1989 revenue shortfall that currently is estimated at about $22 billion per year, is that correct?

Dr. MILLER. Yes.

Chairman DOMENICI. Mr. Miller, I assume that at this late date—this early date, you are nonetheless busy at work on the fiscal year 1988 budget which you will submit on behalf of the President to the Congress and the people of the United States early next year?

Dr. MILLER. Yes.

Chairman DOMENICI. Might I ask if you at any time in working on that budget you assumed that you could meet the Gramm-Rudman-Hollings total for fiscal year 1988 with a $22 billion reduction in the tax base of this country off the current baselines?

Dr. MILLER. With difficulty. With difficulty. [Laughter].

Chairman DOMENICI. I interpret that that in preparing the budget to meet the Gramm-Rudman-Hollings total of $106 billion for fiscal year 1988, that you have not yet come up with even a preliminary approach which would reach that if we had $22 billion less in revenues than we presently contemplate? Is that a fair statement of your answer; with difficulty?

Dr. MILLER. Yes.

Chairman DOMENICI. Might I ask one additional question?

Might I ask whether you expect us to reach the Gramm-Rudman-Hollings' targets for fiscal year 1988 if that tax bill becomes law?

Dr. MILLER. Yes.

Chairman DOMENICI. Might I ask do you intend us to do that without any new revenues?

Dr. MILLER. Yes.

Chairman DOMENICI. Might I ask you how in the world you intend to do that? [Laughter].

Dr. MILLER. With difficulty. [Laughter].

### TAX BILL REVENUE ESTIMATES NOT FIRM

Let me say I think at this point we probably should not place a great deal of credence on these particular estimates. The reasons are as follows: No. 1, the transition rules have not been nailed down. No. 2, our own Treasury Department has not had a chance to scrub the bill carefully and make their own estimates.

Beyond that, we do not know what will happen on the floor in terms of amendments. We do not know what economic growth will

do in terms of the outyear shortfalls that you have identified. So I think it is premature for us to assume that we are going to have a substantial shortfall for fiscal 1988. But the figures that I have been given are cause for great concern.

### RECONCILIATION METHOD TO USE

As far as the $11 billion bump for fiscal year 1987, this is something I think that if it did come about would be fortuitous in getting us down closer to the $144 billion target, or perhaps even below that as the law requires.

I do not think at this time we should depend on an $11 billion bump from tax reform as saving us from a sequester. As I indicated earlier, well, we have got to have the $9.4 billion off the Gradison baseline to get within the $154 billion margin of error. And I think we can accomplish that. We should do it through a reconciliation process, not depend on the bump.

### REVENUE SHORTFALLS AND NEW LEGISLATION

Chairman DOMENICI. Let me suggest it is not—while I greatly respect your considerate opinion, it is my opinion that we can clearly count on the present format of the tax bill to yield at the minimum what I just described. And I assume that when you finish the transition rules and the like, that there is little hope that it will be better, I think it will be worse with reference to the extent of the impact on the deficit. But that is only my opinion.

Frankly, I do not believe we ought to sit around assuming that it is not going to be $22 billion. I think it is, if not more.

Having said that, I would like to remind the members of the Joint Budget Committee that this $9.2 billion that we keep referring to as the amount that we need to get down to $154 billion. I hope everybody understands that that is assuming that the appropriated accounts of this Nation remain exactly as they are right now with not a single new appropriation item considered in a post-sequester posture for 1986. I really cannot believe that we are going to go through the remainder of fiscal year 1987 with the appropriation accounts of this country at that level.

Whether we want to dramatically increase them or not, in my best estimate, it is that a modest job by the Congress, which I hope we will do, over the passed appropriations would add about $3 billion to it, between $2 and $3 billion. That makes it in excess of $12 billion.

And we yet have not considered the big drug bill, which I understand is floating around. Somebody wants to exempt it from Gramm-Rudman-Hollings but, nonetheless, that, plus some other things, have to be added.

The current estimates on the ag program, are we going to have an advance deficiency payment or not? That is a $5 billion item. So I do not believe it is very easy to get the mark, and I do not believe it is going to be any easier with the new tax bill in 1988 and 1989.

Having said that, I have used my 5 minutes. Chairman Gray, you are next, and then I will call on the Senators on my side and you on your side, Chairman Gray.

REVENUES IN PRESIDENT'S BUDGET

Mr. GRAY. Mr. Miller, you have talked about the revenues in the tax bill. Could I ask you to focus your attention a moment on the revenues in the President's budget which was submitted to the American people and Congress in February, and had $6.3 billion worth of new revenues. Of course, about $2 billion of that was enacted in reconciliation for fiscal year 1986, which was late in being carried out.

As the Congress looks at putting together a reconciliation vehicle to get under the threshold before October the 1st, does the President support revenues of the nature that he put forth to the American people in his own budget?

ASSET SALES AND USER CHARGES

Dr. MILLER. Well, I would say that he would support revenues in the form of asset sales and user charges. I think you are correct in the question that beyond that, what sort of revenues beyond asset sales——

Mr. GRAY. I am saying besides the asset sales and user fees that he had in his budget, he had $6.3 billion in new taxes in his budget. We enacted $2 billion of it in reconciliation, which would leave about $4 to $5 billion net revenues.

If the Congress, in its wisdom, following the President's lead in February of this year for fiscal year 1987, in order to comply with the Gramm-Rudman-Hollings threshold, put in the same amount of revenues as the President had, will the President support his own budget?

NOT NEW TAXES

Dr. MILLER. Mr. Chairman, I would not characterize the $6.3 billion as new taxes. There was a continuation of the cigarette tax in order to finance the tobacco program. That was more in the form of a user charge. There was an IRS initiative in order to collect more taxes due, that shows up on the receipt side, on the revenue side. There was a provision that would require Federal employees to contribute an additional amount to their retirement plans to make that a more solvent program. I would not characterize those as new taxes, but more of the kind of appropriate user charges for programs.

I would be willing to consider increased revenues of that variety, some of which are in the reconciliation bills before this Congress. But the President has made his views very well known. He opposes any sort of overall increase in tax rates. And he has stated very firmly he would veto any bill to that effect.

Mr. GRAY. Are you saying the President would support the revenues of the kind he suggested to the American people in February?

Dr. MILLER. Well, I think my answer is reasonably clear on the point I wanted to make.

Mr. GRAY. Well, I am not sure the point you want to make was an answer to my question, Mr. Miller. Your point is that you consider those revenue enhancers. Will the President support similar

approaches as the one he presented to the American people in his budget?

Dr. MILLER. If they meet his standard of not constituting an overall increase in the tax rates, but an appropriate user fee or adjustment in a program that happens to generate additional revenue, then it would depend on a case by case review.

I cannot answer really, Mr. Chairman, in the hypothetical sense.

Mr. GRAY. For the sake of time, I will assume that you are indicating that he possibly would. But let me move on.

### LOAN ASSET SALES

In reference to loan asset sales, et cetera, there has been some indication that the Administration may take further executive action, administrative action. You know, you did that on a PIP and DRG's.

Are there any planned actions between now and the next snapshot that are going to be taken by the administration in terms of pilot programs of loan asset sales or anything like that which therefore would affect the snapshot and the average?

Dr. MILLER. Mr. Chairman, you know we have a $4.4 billion pilot program. We have a group of the Economic Policy Council constantly reviewing, our asset sale situation. It is conceivable that we would come up with additional asset sales in the interim of the next several weeks. But I do not have a package at hand at the moment.

### ADVANCE CROP DEFICIENCY PAYMENTS

Mr. GRAY. One last question.

One of the major differences, Mr. Miller, between OMB and CBO projections is a $5.1 billion difference in farm price support, principally related to advance deficiency payments which are at the administration's discretion.

Does the administration contemplate ordering such payments between now and October the 6th, thereby changing the estimate of 1987 farm prices? What do you plan to do in that regard?

Dr. MILLER. Well, a major concern we have had about advance deficiency payments is that it could possibly trigger a sequester.

At the moment, we have no plans to advance—to grant advance deficiency payments before October 6th. I think it is reasonable to say that we might look at that issue, depending upon what the Joint OMB/CBO report shows in terms of the deficit estimate. If the deficit estimate is sufficiently below the $154 billion margin of error, I suspect that we might look favorably upon granting advance deficiency payments. But if granting advance deficiency payments would trigger a sequester and trigger a 7.6-percent reduction of the whole program, including farm programs, I doubt that we would grant it.

### RECONCILIATION REDUCTION FROM DOMESTIC PROGRAMS

Mr. GRAY. One last question from me, Mr. Chair.

In order to reduce below the threshold, we are going to need somewhere between $10 and $13 billion before October 1st. Assum-

ing this is going to be done in a reconciliation vehicle which the President would have to sign, I certainly hope that we will have the strong cooperation of the President because we have a very short amount of time.

Question: Does the President expect—does this administration expect—such a vehicle to produce over $10 billion worth of deficit reduction to avoid sequestration? Do they expect it only to apply to the domestic side of the ledger?

Dr. MILLER. I think, Mr. Gray, what we anticipate is it to be cuts in domestic spending.

Mr. GRAY. Thank you, Mr. Chairman.

Chairman DOMENICI. Senator Chiles.

Senator CHILES. Thank you, Mr. Chairman.

### EFFECT OF NEW APPROPRIATIONS ON SNAPSHOT ESTIMATES

We are here to find out how much we have to do to avoid a sequester. We need information from the specialists vested by law with the responsibility for making the best estimate possible on the path of the economy.

Dr. Penner, CBO, in its first Gramm-Rudman-Hollings snapshot for 1987 estimated the deficit at $171 billion. Those figures do not include some additional expenditures that will invariably show up in your annual report next January.

First, the Gramm-Rudman-Hollings baseline assumes appropriations spending at last year's level. But let's assume instead, CBO's preliminary estimates of Senate appropriation actions for 1987. And let's also assume that we appropriate enough money to build a new space shuttle, and assume that Congress repeals the trigger for the Social Security COLA, which appears to be a certainty, insuring that all of the Social Security recipients receive that COLA in 1987.

What would the CBO estimate of the deficit for 1987 to be under these assumptions, and how far would we have to reduce the deficit to reach the Gramm-Rudman-Hollings target of $144 million?

Dr. PENNER. As you said, sir, we started with an estimate of $170.6 billion. Many appropriation bills in the Senate are not very far along, and where there has been no action taken, if you substitute the budget resolution targets under the 302(b) allocations, you would get an additional $1.7 billion. The new space shuttle is $0.2 billion. Eliminating 3 percent payment for COLA's is $0.8 billion. You would have an indirect effect of $0.1 billion on the debt service. The end point would be $173.4 billion.

Obviously, for administering Gramm-Rudman-Hollings it will be the average between OMB and us that counts, and I am not sure that OMB would come out with similar numbers. I know they would not with regard to the Social Security COLA, where their estimate is a zero cost because of the added revenues on the other side. So the average in that case would be $0.4 billion rather than our $0.8 billion.

### OMB DEFICIT ESTIMATES LOWER THAN CBO/GAO

Senator CHILES. All right. The General Accounting Office has just issued a report analyzing the Gramm-Rudman-Hollings OMB/

CBO snapshot, and GAO's estimate of the deficit for 1987 is $168 billion.

Because the administration refused to say whether it would make advance deficiency payments to farmers in 1987, GAO only assumed $2 billion for those payments, not the $4 billion which are authorized.

CBO assumed the full $4 billion in its estimate. Also for the purpose of the snapshot, GAO assumed, as did OMB, that certain appropriated entitlement programs such as school lunch and school breakfast would be funded at 1986 levels. Since no cuts have been made in these programs, it is clear that they are going to be funded at the 1987 policy levels, not at the 1986 levels.

CBO assumed the higher figures in its deficit estimates. This adds another half billion dollars to GAO's report. Once these adjustments are made, isn't it true that the GAO estimate of the deficit for 1987 is very close to the CBO estimate of $171 billion, within about a half billion dollars?

And isn't it true that OMB's estimate of the deficit is about $15 billion lower than both CBO's and the adjusted GAO figure that I——

Dr. PENNER. Yes, sir. If you made all of the adjustments that you referred to, to the GAO deficit estimate, GAO would be within half a billion dollars of us.

### GROWTH ESTIMATES TOO OPTIMISTIC

Senator CHILES. The Blue Chip consensus economic forecast for September has just been released. Based on predictions of 52 private forecasters, I think it is interesting to compare what these forecasters are saying with what CBO and OMB are telling us.

We have gotten used to OMB telling us that things are going to be good, just around the corner. Now they are telling us we can expect 3.7 percent growth in fiscal year 1987. CBO is not that optimistic at 3.2 percent, and GAO, in releasing its review, is telling us that CBO is too optimistic and should expect the economy to grow at only 2.8 percent. Now, we see the Blue Chip consensus is telling us that GAO is too optimistic, that the private consensus sees a 2.7 percent growth. So the consensus is a full percentage point below OMB, and when you look at where the OMB forecast fits in with the private forecasters, we find out of the 52 forecasters only five believe the economy is going to grow as fast as OMB says.

That means that 90 percent of the forecasters think that OMB is wrong, and even CBO is optimistic with 60 percent of the private forecasters.

So it is important that we understand that the OMB/CBO average forecast is a far cry from the true average as reflected in the Blue Chip consensus.

The true average would reflect the views of both the optimistic and pessimistic forecasters.

Basically, Dr. Penner, if the consensus is correct and we grow 0.7 percent slower than CBO says, how much larger would the 1987 deficit be?

Dr. PENNER. First let me make the point, Senator, that while our friends at GAO were quite kind to us in their January report with

regard to our forecasting record, which stands up pretty well compared with those of private forecasters, nevertheless, it is such an uncertain business that our average error in the summer forecast for real growth during the following calendar year, in the history of CBO, is slightly more than one percentage point. So neither the OMB nor the GAO forecast, nor the consensus forecast, can be said to be really significantly different from ours. But taking you very literally, and assuming that all else, interest rates et cetera, remain the same, a one percentage point error on our part in the real growth estimate for 1987 would lead to an $8 billion error in the deficit estimate.

A difference of 0.7 percentage points in growth, therefore, would add about $6 billion to the 1987 deficit. Extrapolating that to 1988, 0.7 percent slower growth carried through would be worth——

Chairman DOMENICI. Could I interrupt?

Dr. PENNER [continuing]. $16 billion.

VOTING RESOLUTION OUT OF COMMITTEE

Chairman DOMENICI. Could I just interrupt. Before the Members of the House—I understand they have got a preliminary call for a vote. I very much am aware of all of the difficult scheduling problems we have got, and I just wonder if there is a disposition to remain as long as is necessary to inquire—and we will do that—but if there would be a disposition to proceed to vote out the joint resolution, and order it reported to both Houses?

Mr. GRAY. Mr. Chairman, I would recommend that while we have a quorum, that we do now move to report the GAO/OMB report, and then we can continue the questioning of these witnesses, since Members of the House now have to go and vote, and we will return and continue the questioning while the Senate Members question. But in the interest of maintaining our quorum I would suggest that we have the vote now. So, Mr. Chairman, I will be glad to move that we report out the report from OMB and CBO, in compliance with Gramm-Rudman, which is our ministerial duty to do so, to our two respective bodies.

Chairman DOMENICI. You have heard the motion.

I would only want to, if Senator Hollings desires to modify his statement to include the name Hollings to Gramm-Rudman-Hollings—is that——.

Mr. GRAY. And Mack. [Laughter.]

[No response.]

Chairman DOMENICI. All right. Let me then just suggest that the motion has been made that we report the resolution and that it be ordered reported to both Houses.

Might we do that by a voice vote at this point.

All those in favor of reporting the order of sequestration to both Houses indicate by saying aye.

[Chorus of ayes.]

Chairman DOMENICI. Opposed.

[No response.]

Chairman DOMENICI. All right. The order will be reported.

Mr. GRAY. Mr. Chairman, the Members of the House who wish to question will be returning, so that we can ask further questions of the witness.

Chairman DOMENICI. Thank you very much. On our side, I understand that Senator Danforth desires to inquire.

Senator DANFORTH. Mr. Chairman, I do. I wonder if, before I start, we might wait for the room to calm down a little bit.

Chairman DOMENICI. We will. Not only will we, but we will urge that it calm down quickly.

Could I ask those who are moving, if you will move a little more expeditiously, and those who are talking, if you would talk a little less. We would like to proceed.

Senator DANFORTH.

## GRAMM-RUDMAN-HOLLINGS "DEAD DUCK"

Senator DANFORTH. Mr. Chairman, I am not sure which witness I want to address these comments to, but I would invite any witness, or any Member of Congress to respond to the following comments.

I believe that the enactment of the tax bill necessarily renders Gramm-Rudman-Hollings a "dead duck" after the 1987 fiscal year.

The reason I believe that is that for fiscal year 1987, we will not end up with sequestration. We will end up hitting a target not of $144 billion, but, $154 billion, and we will use to meet that enlarged target a projected first-year revenue windfall from the tax bill of $11 billion.

For fiscal year 1988, the target will not be $144 billion, it will be $108 billion. We will not have available the $11 billion front-end windfall. Instead, we will have a shortfall built into the revenue projections for 1988. My understanding is that the projected shortfall is $17 billion. I'm now told it may be as high as $22 billion. So, instead of having a cushion, instead of having a front-end load of $11 billion, we are going to have a $17 to $22 billion shortfall, which is a swing of up to $33 billion, on top of the drop from $144 billion to $108 billion in the target.

Add to that the fact that with respect to the tax bill, the revenue projections were, and as far as I know, still are, all over the map.

During a 4-week period of time when the Conference Committee met on the tax bill, the 5-revenue projections for the bill changed by $20 billion.

So they really are not estimates; they are guesses as to the revenue that is produced by the tax bill. Add to that the fact that some economists are predicting a reversal of economic fortunes, at least in the initial years of the tax bill.

Murray Weidenbaum who was the first Chairman of the Council of Economic Advisors, in the first Reagan administration, has estimated that the tax bill would mean 1 percentage point off of GNP in the first year.

If that is correct, and if 1 percentage point equals $8 billion, as Dr. Penner just stated, that is another $8 billion problem because of the projected economic downturn.

Then we have clear funny money in the projections on the tax bill. For example, in 1981, when we passed the 1981 tax bill, we told ourselves that we were going to increase revenue by reducing

the capital gains rate from 28 percent to 20 percent, and that happened. We increased revenue by reducing the capital gains rates because there were more transactions.

Now we tell ourselves, in the economic projections on this tax bill, that we are going to increase revenue by raising the capital gains rates from 20 to 28 percent.

Now Mr. Chairman, you cannot have it both ways. You either increase revenue by cutting the capital gains tax, or by increasing the capital gains tax, not both ways, I do not think.

So the comment that I would make is this: I believe that between the regular—what we have agreed to—reduction in the deficit between fiscal year 1987 and fiscal year 1988, and the fact that we will be using a front-end load from the tax bill, whereas, there will be a shortfall in the following years; plus what we know is clear funny money in the tax bill; plus the economic consequences of repealing the Investment Tax Credit, taking more money out of depreciation, and other changes, and the effect that that will have on economic projects—I think that it is a matter of certainty that Gramm-Rudman-Hollings is a 1-year phenomenon, and that it will be of no value at all in the future.

### NOT PREMATURE TO BELIEVE WE CAN MAKE IT IN FISCAL YEAR 1988

And so when Dr. Miller said that it is premature to believe that we cannot make it in fiscal year 1988, I do not think it is premature at all. I think that there is something to be said for facing up to problems around here a year in advance, rather than perpetually flying by the seat of our pants. And if anyone would like to respond to these comments, and tell me where I am wrong, I would welcome that being done.

Chairman DOMENICI. Thank you very much.

Do any of the witnesses desire to comment?

Mr. BOWSHER. I would like to——

Chairman DOMENICI. I will say that we assume your silence means you agree. [Laughter.]

Mr. BOWSHER. I would like to comment just a little bit on the expenditure side, too, because I share Senator Danforth's concern, and one of the concerns we put in our GAO report was, that as you push these expenditures into the next fiscal year, that might help to make this target. But both in the defense area, and the agriculture area, what you are doing is, you are building up a bigger and bigger problem for the succeeding years.

And what we did is, we did not buy into some of those approaches because we really thought that the Gramm-Rudman-Hollings procedure was to get down to a balanced budget over the 5-year period.

And so those concerns I think add to the concerns that you have just articulated, Senator.

### REVENUES BY ACCOUNTING CHANGES

Senator DANFORTH. Plus the fact that in the tax bill, we have come up with substantial amounts of revenue by accounting changes, which means that we have attempted, by accounting changes, to increase, artificially, revenues during the 5-year period

of the tax bill, and those accounting changes are not going to be available in the out-years.

What I was talking about was simply fiscal year 1988. But the problems that we are creating beyond fiscal year 1988 are substantially more serious than what we are creating for fiscal year 1988.

Senator HOLLINGS. Mr. Chairman.

Chairman DOMENICI. Let me first see if they desire to comment. I thought Dr. Penner did.

Dr. PENNER. Let me just comment that obviously, with anything as complex as the tax bill, the uncertainties multiply greatly, and everyone engaged in the revenue-estimating effort would be very willing to admit that.

### DOUBT CAST ON FORECAST BECAUSE OF TAX BILL

Senator Danforth has cast some doubt on our forecast because of the tax bill. We did the best job we could under the circumstances. At the time we made our forecast the tax bill was not finalized, but we had to contend with the uncertainties it was generating for the business world already.

But it might be helpful, just for the moment, accepting our forecast, to point out that our August baseline deficit for fiscal year 1988 is $150 billion.

The policies assumed in the budget resolution would reduce that, even paying the COLA, and so on, by more than the change implied by the tax bill. And I am using the $17 billion that you used. That is the last number I had for the amount of revenue loss in fiscal year 1988.

But taking the Tax Bill into account, assuming the policies of the budget resolution, assuming you pay a COLA, and assuming you procure a space shuttle, we end up with a deficit, under those assumptions, of $145 billion, or some $37 billion from the target of $108 billion.

Senator CHILES. Does Jim Miller want to say something?

Chairman DOMENICI. Director Miller.

Dr. MILLER. I have already explained my position.

Chairman DOMENICI. Senator Hollings.

### CAN'T INCREASE REVENUES BY REDUCING TAXES

Senator HOLLINGS. I think that what the distinguished Senator from Missouri said is right on target, and in particular I appreciate his saying that you cannot increase your revenues by decreasing your taxes.

That may sound like commonsense, but after 5 years of wandering in the supply-side wonderland it is a breath of fresh air. The very premise of Reaganomics is that by decreasing taxes you miraculously increase revenues, which you then use to pay for the defense buildup.

This is delusion that many Members have bought into. And now finally, we have got Members saying, no, it doesn't work that way. The revenue windfall doesn't happen. Only deficits happen.

The point is not whether Gramm-Rudman-Hollings is a success or a "dead duck." This time next year, if Gramm-Ruman-Hollings does not work, the economy is going to be the "dead duck" and

that would perhaps be a mortal blow to this Congress, and perhaps it should be.

Now the real point here is that a discipline has been imposed by Gramm-Rudman-Hollings. We saved some $11.7 billion in March and you can bet your boots, whether by taking the first year tax-reform windfall, or otherwise, we will whittle down next year's deficit to around a $154 billion.

And bringing it down that far from the $230 billion we are expecting in fiscal year 1986 would be remarkable. Indeed, if we had not made that $11.7 billion cutback in March, the fiscal year 1986 deficit would have been $242 billion. So, in truth, we are slashing the deficit from $242 billion down to $154 billion. That is a good $88 billion in reductions, that never would have happened if we had continued on the same old merry chase and spending binge.

Mr. Chairman, there is one drug worse than crack and that is the drug of deficit spending, and you do not need a urinalysis to detect its presence. Just look at the sorry state of the economy, with high real interest rates, huge trade deficits, and a falling dollar.

In recent days, we have witnessed a teapot tempest on the subject of drug abuse. Fighting drugs is the perfect, no-lost, mom-and-apple-pie issue for an election year. But let us not forget the real issue facting this Nation and the next Congress. The American people may have a $110 billion a year illegal drug habit. But the Federal Government this year has a $230 billion addiction to deficit spending that is every bit as dangerous to our Nation's future.

Mr. Chairman, it verges on the hypocritical for Congress to preach and moralize about drug abuse until we have truly demonstrated that we, too, are capable of discipline.

Senator GORTON. Mr. Chairman.

Chairman DOMENICI. Let me ask if Senator Gorton desires to proceed, which you are next. Would you yield to Senator Danforth?

Senator GORTON. I would be happy to yield to him, if I have an opportunity.

Chairman DOMENICI. All right.

### TAX BILL DOOMS DEFICIT REDUCTION ACT

Senator DANFORTH. Well, Mr. Chairman, I supported Gramm-Rudman-Hollings. I think that it has accomplished something, but my point is that it was a program with a 1-year duration, and that it has no future.

And the reason it has no future is largely because of the tax bill. We are using artificial contrivances to meet, not the original target of $144 billion, but an enlarged target of $154 billion.

We are never going to get to the $108 billion target for next year. I mean it is ridiculous to think that we are. We have fought the battle of the budget and we have lost and the utilization of the $11 billion frontend load is a further act of fakery. I mean, it is fraudulence to do it. We are using money that is available, once, so that we can award ourselves marksmanship medals for hitting a target that is larger than what we said when we passed the resolution in the first place. It is crazy.

And then to say that we are going to take into account the $11 billion, forget about the $17 billion problem that we have created in outyears. Assume that very strange calculations that are used in the revenue estimates of the Joint Committee on Taxation are correct.

And assume that the $11 billion will be available but there will be no economic downturn because of the economic consequences of the tax bill. All of that is wishful thinking.

And we are living in a dream world around this place. I mean, it is just as simple as that. We are living in a dream world. Last year we congratulated ourselves when Pete Wilson was wheeled onto the floor of the Senate right out of the hospital from having an emergency appendectomy.

I said this is one of the great moments in the history of the Senate. I thought it was wonderful. We were coming to grips with the deficit. Then we passed Gramm-Rudman-Hollings and we said we came to grips with the deficit.

Now we hear the Director of OMB say well, it is premature to assume that we are not going to meet the 1988 targets. How long are we going to dream? How long are we going to do damage to the economic future of this country because we engage in nothing more than wishful thinking and the cranking out of PR statements about what a beautiful job we are doing in reducing the size of the deficit. Yes, Gramm-Rudman-Hollings has reduced the size of the deficit below what it could have been, but we are not going to come anywhere close to $108 billion by 1988. We are not going to come within striking distance of a balanced budget by 1991.

### PEOPLE SHOULD CONDEMN IRRESPONSIBILITY

We do have $200 billion, more or less, budget deficits for as long as we can see, as David Stockman would say, and, I just think that this front-end load of the $11 billion, to utilize that, is so irresponsible that we should be condemned by the American people if we were to do that, and I thank you for the extension of my time, Mr. Chairman.

Chairman DOMENICI. Director Miller has to leave in about 1 or 2 minutes, and we will have his assistant answer technical questions—Mr. Muris—but I did want to ask if Senator Slade Gorton had a question before he left, or something that would be directed at him?

Senator GORTON. No, I did not, Mr. Chairman.

Chairman DOMENICI. Then I could ask this, please: Senator Exon, did you want to inquire of the Director?

Senator EXON. I certainly do.

Chairman DOMENICI. Please do.

### GNP ESTIMATES

Senator EXON. Gentlemen, I want to ask each one of you, with regard to recent developments, are you, each and every one of you, more certain, or less certain, than you were when you made your estimates of GNP next year? OMB was 3.7 percent. CBO was 3.2 percent, and GAO was 2.8 percent.

I happen to feel that, at best, those estimates are the upper limits of what the GNP is going to be. How do you answer my question as to whether you are more confident, or less confident of those estimates today than you were when they were made?

Dr. MILLER. Senator, I have said on a number of occasions, that I think the economy is in a situation right now, where you cannot have as great a degree of confidence in your projections of economic growth, inflation, interest rates, or whatever, as in normal times.

We have experienced since last February a substantial downturn in the interest rate, and in inflation rates, from what we had anticipated.

### NOT AS CERTAIN AS USUAL ON GROWTH

We have experienced some downturn in the rate of growth. So, let me just say that the starting point is that we do not have again as much certainty—we, speaking for OMB—as under normal times. But as to whether we have a greater degree or even a lesser degree of confidence today than we had when we issued the report on August 20, I would say that there has been no change.

Senator EXON. Are you saying, Mr. Miller, then, that you think that—I am guessing that it is more likely to be 2 to 2.5 percent. You still hold to 3.7?

Dr. MILLER. Yes.

Senator EXON. Next witness.

Dr. PENNER. We said very much what Director Miller said in our August report, that economic forecasting is always uncertain, but in these peculiar times probably more uncertain than usual. Since we made that report, we have had two pieces of important economic news—one bad, one good. The trade data for July were very disappointing, with the $18 billion trade deficit.

On the other hand, the employment report for August, just released, showed more life than we had been anticipating in the economy, with greater employment growth, especially in the establishment survey. So, we see no reason, at the moment, to change our forecast at all.

Senator EXON. Even as a result—what did you predict would be the GNP 1 year ago now? The GNP growth is what, around 2 percent some place now? What did you predict 1 year ago?

Dr. PENNER. A year ago? Let's see. I do not have that number with me.

Senator EXON. Well, it was not 2 percent, was it?

Chairman DOMENICI. Three and a half.

Dr. PENNER. Going back to February—going back 6 months ago——

### PHONY GROWTH FIGURES

Senator EXON. I mean 1 year ago. I am trying to get to what I think is a bunch of phony figures that you people are presenting to us today with a straight face.

I think they are wrong, and I associate myself with the remarks made by the Senator from Missouri. This is a myth that we are going through here, gentlemen.

Grown men and women, some elected and some appointed, are sitting around a table doing an exercise trying to fool the people of the United States. I think it is wrong. I do not mean to personally attack you.

I am just saying, from a historical standpoint, you are wrong on your figures. And yet when I ask you how sincere you are about them, you say, yeah, you think they are right.

I want to know, Mr. Penner, what your projections were. Were they as the chairman just said, 3½ percent, and end up 2? That is a long ways off.

Dr. PENNER. In February 1985, we forecast an average rate of growth of 3.2 percent for 1986, for calendar 1986. Our assumption was the same in the February report of this year, and now, we are at 2.8, as I remember. Let me just check that.

Yes.

Senator EXON. You are at what?

Dr. PENNER. 2.8 percent.

Senator EXON. You are at 2.8 percent for fiscal 1987?

Dr. PENNER. That is for the calendar year, 1986. I am speaking about calendar years in all instances. So, in other words, over the last year and a half, our forecast has changed by four-tenths of 1 percentage point. Obviously, the 2.8 percent could be wrong, but that is a very small change.

### AGRICULTURE ADVANCE DEFICIENCY PAYMENTS

Senator EXON. Well, Mr. Miller, I know you have to leave. I have one last question for you, that I think you can answer maybe with a yes or no, as you have answered most of the questions today.

Will the administration be influenced, whatsoever, on public opinion polls between now and the upcoming elections with regard to the advance deficiency payments?

Dr. MILLER. I think, Senator, the answer I gave on advance deficiency payments stands. I do not have anything to add to that.

### GROWTH ESTIMATES BEST POSSIBLE

Let me say, Senator, you are of course welcome to your opinion on the estimate that we have provided, but I would just reemphasize something I said when I started, and that was, we made these calls the best we see them. I have a Ph.D. in economics and I spent a lot of time earning it, as did Dr. Penner, and we have a lot of people that are working very hard to provide these estimates for you, at your request. We have provided the best that we can do. I am sorry if it is not satisfactory.

Senator EXON. I have no further questions. Thank you.

Chairman DOMENICI. Mr. Miller—thank you very much, Senator Exon. Mr. Miller, could you answer one question?

Dr. MILLER. Yes.

Chairman DOMENICI. Representative Russo has one of you, and then——

Senator EXON. Well, how about GAO under 2.8, then?

Chairman DOMENICI. Could we have——

Senator EXON. I will wait and ask them later, if you want to——

Chairman DOMENICI. Just this one, and then we will come back to you, Senator.

Mr. RUSSO. Senator, I appreciate it. We have another rollcall vote going on, and I wanted to get back here, because I understood that Mr. Miller has a Cabinet meeting at 1 o'clock.

NO FURTHER CUTS IN DEFENSE AND FOREIGN ASSISTANCE

I just wanted to get one clarification on the record. As I understand the sequestration order, we would take about $9.5 billion from domestic spending, and about $9.5 billion from defense, as specified in Gramm-Rudman-Hollings. This legislation also says that we will try to allocate the cuts from defense and domestic spending as evenly as we possibly can, in a manner that was supported by the President, by this body, and by the conference last year.

But as I understand your comment to Chairman Gray—and I want to make sure I understood it—you expect to get all the cuts from just the domestic side of the budget, and the sacred cow is now defense. Is that an accurate interpretation of what you said?

Dr. MILLER. Let me say of course we have got to get $9.4 billion to get within the $154 billion. So that is the total that we have to have. Our position is yes, we cannot accept any further reductions in the defense and international affairs budgets.

In other words, we have to have what is in the mid-session review, which is based on the congressional budget resolution, which is a substantial cut, as you know, in defense and international affairs.

The President cannot accept anything less than that, and so we have—and the President has been adamant against any increase in taxes. So the derivative there is that we anticipate those $9.4 billion of cuts to be——

CUTS IN FOREIGN AID AND DEFENSE ALREADY TAKEN

Mr. RUSSO. So as I understand it, Mr. Miller, to avoid a sequestration, just to get down to $154 billion, this administration intends to protect foreign aid as much as it possibly can from cuts? You will not ask for any cuts in foreign aid?

Dr. MILLER. No, there have been substantial cuts from what the President asked for in the 1987 budget.

Mr. RUSSO. But in getting down to this $154 billion, this administration is not going to ask for any more cuts in foreign aid. It is not going to ask for any more cuts in defense?

Dr. MILLER. Yes.

Mr. RUSSO. It is not asking either one of those areas of the budget to be a part of the burden. You are going to ask that domestic programs take all the cuts to get down to $154 billion?

Dr. MILLER. Well, the President's defense budget request this year has come down over $20 billion.

Mr. RUSSO. Well, from his request, not from what the conference and the Congress has done so far.

Dr. MILLER. Right.

Mr. RUSSO. But I just want to make it clear. I mean, everybody ought to know that in order to avoid sequestration, more cuts are

going to be made in domestic programs and not from foreign aid and defense.

DOMESTIC PROGRAMS TO SUPPLY SEQUESTER TOTAL

Dr. MILLER. Well, of course if there is sequester as you indicated, Congressman, it would be $9.5 billion——

Mr. RUSSO. Well, it is obvious to me that if we went to sequestration it would be much more evenhanded, because defense would take 50 percent and so would domestic spending.

Dr. MILLER. The point I would make, Congressman, is that in order to avoid sequester you have to cut $9.4 billion total, and to get down below the $154 billion margin of error. However, if you had sequester, $9.5 billion would come out of defense, and $9.5 billion would also come out of nondefense and it would come off in across-the-board meat ax approach cutting every single program. And we feel that there are a lot of domestic programs that can be cut without people really suffering at all.

Mr. RUSSO. Well, I tend to disagree with that, but what you are saying is to avoid the $144 billion figure, so you can avoid total sequestration by getting to $154 billion, you will only accept cuts from the domestic side, and not cuts from foreign aid and defense. That is, in essence, what you are saying?

Dr. MILLER. Yes.

Mr. RUSSO. OK. Thank you, Mr. Chairman. I appreciate it.

Chairman DOMENICI. Thank you very much.

Senator GORTON. Mr. Chairman.

Chairman DOMENICI. Yes. Senator Gorton, let me indicate that we have plenty of time and I did not mean to pass you over. The House will be returning, and I will stay, and to the extent that it is necessary we will be here. I do not know if Senator Exon—we had yielded to you, Senator, so that you could inquire of Director Miller.

What is your pleasure? Do you have some additional questions?

DEGREE OF CONFIDENCE IN GNP ESTIMATE

Senator EXON. I may have, if there is a second round. I will not take any more time. I just would like to have the answer to my question from the third witness, with regard to how secure his department feels on his department's lowest estimate of GNP growth, which I think is the most realistic of the three.

Mr. BOWSHER. Our estimate is 2.8 percent which is the lowest. We have no reason to change that estimate at this point in time, but I would point out that we brought in some outside economists to help us, and advise, and some of them did see things a little more pessimistic, which would tend to be getting more toward your figure.

Senator EXON. What was the lowest estimate by your outside experts?

Mr. BOWSHER. I do not quite remember. We could provide that information, if you would like.

[The following was subsequently supplied for the record by GAO:]

As one step in developing our economic forecast, at the end of June 1986 each panel member submitted his own views of fiscal 1987 economic performance. At that

time, individual views about fiscal 1987 real growth varied from a low of 2.8 percent to a high of 3.4 percent with an average of 3.0 to 3.1 percent. The economic news released between late June and the date of our panel meeting (July 21) caused most panel members to revise their growth estimates downward. The consensus that emerged from the meeting was closer to 2.8 percent real growth for fiscal 1987. We did not ask the panel to submit revised individual estimates after the meeting. Had we done so, the lowest estimate would probably have been in the neighborhood of 2.5 to 2.6 percent.

Chairman DOMENICI. Senator Gorton.

Senator GORTON. Mr. Chairman, I do not have any questions but I do have a comment on the discussion triggered by the remarks of my colleague and friend Senator Danforth.

He is one of the more eloquent Members of the U.S. Senate and I found his arguments to be interesting, but of mixed validity.

It seems to me that his primary argument is that the tax reform bill, which is about to come before the two Houses of Congress, is undesirable, and that its revenues from year to year have been misestimated. If so, the same economic consequences which will cause the revenue estimates of the new tax bill to be off, also will cause revenue estimates of the present Tax Code to be off.

Mr. Danforth argued as well that the new tax reform bill will hurt or stunt the growth of the economy, and I think he has respectable authority for that proposition.

I believe that there is respectable authority on the other side of that argument, however, that lower rates, and dramatically fewer tax preferences will cause investment in this country to go toward production and growth rather than toward tax shelters. That it will be an advantage.

I am not totally convinced of the correctness of either of those two propositions. I simply wish to note that there is a good argument on the other side.

I do join Senator Danforth in viewing with some real concern the proposition that we will use some, or all, of whatever added revenues should come in in 1987 to solve our Gramm-Rudman-Hollings problems for 1987. I suspect, from what I have heard from the chairman of the Senate Finance Committee, that there probably will be somewhat less than $11 billion for us to play around with in that fashion. I understand that the distinguished chairman of the Senate Budget Committee will propose to all of us methods of amending our reconciliation bill to add to its savings thus using less—perhaps none—but certainly less of whatever 1987 windfall we have from the tax bill.

Under those circumstances, we and Members of the House of Representatives can make a choice, a choice which we all must make, as to whether or not we will restrain spending to meet our responsibilities.

I support restraining spending across the board, rather than in the way suggested by OMB Director Miller. I prefer that, as that method of operating as well.

What I do disagree with, however—and I speak for Senator Hollings I hope as well, is that somehow or another, any use of the accounting gimmicks which may be adopted, means that Gramm-Rudman-Hollings is either a fraud, or ineffective or both.

### DEFICIT WON'T REACH TARGET

I do not believe that we will in fact lower the budget deficit to as little as $154 billion next year, even if we meet the technical requirements of Gramm-Rudman-Hollings, because of some of the assumptions which we have made.

My own rough estimate of next year's deficit is that it may be as much as $170 billion. If my assumptions are correct, Mr. Chairman, given that this year's deficit is about $230 billion—we will have reduced the deficit by some $60 billion—even under those rather conservative projections.

There may have been a year in the history of the United States in which the budget deficit was reduced by that much, but I am not sure what year that was. This bit of progress is much better than we did last year, pre Gramm-Rudman-Hollings.

### NEW AND ARTIFICIAL SYSTEM INSTALLED

I shared Senator Danforth's elation with what the Senate did a year and a half ago. I joined with the chairman and with Senator Childs in making a proposal to the President in the summer of last year, which would have avoided any need for a Gramm-Rudman-Hollings.

But we did not get that accepted by the President or by the House of Representatives, and so we went to a new and artificial system called Gramm-Rudman-Hollings to try to give us a greater incentive for fiscal discipline.

And in my opinion, Mr. Chairman, it has worked. It would work best of course if we met precisely that $144 billion goal but that goal was a stab at the dark by the authors of the bill.

We did not feel that this year's deficit was going to be $230 billion when we aimed at $144 billion for next year. We have probably cut as much off the deficit for 1987 as would have met that $144 billion goal, had not 1986 been so bad. I do not think we will meet the $108 billion deficit target in 1988. But I think we will have a deficit which is lower than it will be in 1987, one way or another.

There are all kinds of suggestions as to how we will accomplish that, and if we do, the reason will be the discipline which Congress has imposed on itself through Gramm-Rudman-Hollings. Having dramatically lower budget deficits each year, with some degree of flexibility, should be the goal, not a specific set of figures which we all pulled out of the hat late last year.

I believe that Gramm-Rudman-Hollings has been a success. I believe that it will continue to be a success, if we pass the tax reform bill, or if we do not, and that the goal that we have to aim at is lower budget deficits and a more responsible fiscal policy.

### FRUSTRATED IN CONFERENCE BY GIMMICKS

Senator GORTON. The chairman of this committee has been perhaps the single most important leader in attempting to create a responsible fiscal policy for this country. He is more frustrated than anyone else by the kinds of gimmicks that we seem to get every

year, particularly when we go to conference on it, and by promises from the other side of the Capitol.

Nonetheless, the chairman of this committee has been a tremendous success, and the people of the United States owe him a great debt of gratitude for what has been done. We have not done what we should have done, but we have done much better than we would have had it not been for the chairman of this committee and Senators Gramm, Rudman, and Hollings.

Chairman DOMENICI. Let me indicate now that I'm most appreciative of those words and your observations are most thoughtful.

### WON'T REACH DEFICIT TARGET

However, let me tell you what I think is going to happen, Senator Gorton, with reference to the future of deficit reduction. I believe we're right now on the brink.

First of all, we are not going to be able, in my opinion, to fail to take into consideration the $11 billion that the tax bill will yield by way of a windfall. How can we do that? The accountants are going to take it into consideration. If it's signed by October 1, they have to go take a snapshot, it is then current law, it will be taken into consideration.

Yes, we will try to reduce the deficit with the reconciliation bill. I don't believe that there is any way to find what's necessary in the reconciliation bill. I have 10 or 12 ideas. I've talked to the administration about theirs; I've searched around with everybody that has them. Let me suggest, I don't think they're there.

And in addition, there too, most of them are one shot events. Everybody is joyous that we're going to sell Conrail, maybe. We don't get any impact in 1988 and 1989 from those kind of events, and we're right back in the muddle.

My prediction is that with the passage of the tax bill as is, with deficit reduction as pushed on us by Gramm-Rudman-Hollings, and the way we will comply, that it will become common, ordinary knowledge by January, February, March of next year that we cannot reach the totals prescribed by Gramm-Rudman-Hollings.

Senator GORTON. The $108 billion by 1988.

### NOT GOOD POLICY TO REACH DEFICIT TARGET

Chairman DOMENICI. Correct. As a matter of fact, I believe that we will get a huge hue and cry from the economic community, believe it or not, that it isn't even good policy. That's what I assume they will say, because obviously this economy is not going to be as across-the-board vibrant as we would like it. We are very proud that the recovery is lengthy; it goes on a couple of more months and it will be the longest recovery in history, since the Second World War, as spotty as it is in some States. In a broad sense it is a very, very long recovery, and it will probably continue. But clearly it's not going to be where people want it, and to say with the windfall that we took advantage of, the one shot reductions and the $22 billion you lose in taxes, and you will lose that much, and by the time that occurs, plus the economic adjustments, it will be bigger in my opinion, you will not be able to see your way clear to get what I'm going to tell you right now it seems to me to be a mini-

mum of $60 billion, a maximum of $70 billion off what we'll end up this year, in order to get to the $108 billion.

As a matter of fact, I would have asked—I will not— but whether these economists, including Dr. Miller, Dr. Penner, put their future cap on and just say hypothetically it's March of next year, here's this year's deficit, and here's next year's because of the tax bill and the economics--do you recommend as a matter of good economic policy that we get down to $108 billion, if the number is $65 to $75 billion, and I'm not even going to ask them. But I would predict that knowing both of them, in particular Dr. Penner, that they would say we probably shouldn't because of the nature of the economy.

NEAR ABANDONING BALANCED BUDGET CONCEPT

We missed the boat 2 or 3 years ago when growth was strong in not getting the deficit down. I'm willing to admit there are many other policies besides deficit reduction. Obviously we need to build back the defense; we needed to get inflation down and a lot of other things.

But I think we're getting very close, very close to abandoning a notion of truly ever getting to a balanced budget, and I believe we're going to end up very close to abandoning the notion that we'll be on that path, as prescribed by that law.

Nonetheless, it's serving a good purpose. This year it will force us to do some things that we wouldn't otherwise do—frankly not an awful lot. It's just forced us not to spend some things. But in terms of reductions that are permanent in nature—I mean, what have we done? We have passed nothing. That's why the deficit is lower.

We have passed no laws, no appropriations, no reform of any type. I mean, we've just had a "let's sit in place and bask in the glory that Gramm-Rudman-Hollings got the deficit down".

HOLD THE LINE BUDGETS

We can't stay in that posture very long. There's laws that have to be changed; there's modifications that have to take place in the basic policies. We want to stand in place for 3 years on everything, but I guarantee you that this Congress is going to be tough on defense if we do that, not that I want to, but that's what we're going to do. We want to know where the savings will come, they've come out of defense, for those around here wondering where we've cut. Stockman's projections of $300 billion deficits were right, but it's just that he was forced to use a defense trend line that came from the administration, and we haven't done it, because we've said we aren't going to do it. That saved $70 to $80 billion in outlays from 3 or 4 years ago. That's where it's all happened. But you're down pretty far now, and nobody's going to get $8 or $10 billion in outlays out of defense. It just isn't going to happen. I mean, they'll put a CR through that will at least leave it at this year's level, it seems to me. So we're not going to get there.

And I merely say that in the context of lot's of policies, inflation, growth in the economy, all those other things. What do we do

about the trade balance? I don't think deficit reduction is the only policy problem in the nation. But I think we're getting pretty close.

### TAX BILL WON'T BALANCE BUDGET

If we do the tax bill as is, if we intend to stay with Gramm-Rudman-Hollings, I just don't believe we can do it. Now, everybody can decide what that means, and you apparently have decided there's another policy that you think is very good, tax reform bill, that it's necessary. No criticism from my side. The time has come when you have to do something. Just don't have any doubt about it—it's not going to make Gramm-Rudman-Hollings miraculously get us down to $108 billion and a balanced budget 3 years thereafter. I mean, it just can't. It's an absolute impossibility.

Now, having said that, we've used a lot of time on our side. You've been patient for the last 6 or 7 minutes, so it's on your side now for a while, Chairman Gray.

Mr. GRAY. Thank you, Chairman Domenici. I don't know if anyone else on our side has any statements that they want to make.

We've had a succession of two votes, and I know Mr. Brown who is just returning, sought recognition. I would like to recognize him, but before I do, as he is sitting down, first let me extend my apologies to the chairman of the Budget Committee of the Senate, Senator Domenici and his colleagues from the Senate because of our inability yesterday to meet and only notifying Senator Domenici at the very last minute. So it was regretful, we weren't able to keep that commitment, and I wanted to apologize to the Senator for it, and to his colleagues, since he only received very late notice from me.

I believe Mr. Latta and Mr. Williams seek recognition before we go to Mr. Brown. Mr. Latta?

### MORE SAVINGS NEEDED IN RECONCILIATION

Mr. LATTA. I had a couple of questions for Mr. Miller, but since he's not with us, I'm going to direct them to Mr. Penner.

I notice in Mr. Miller's statement that his estimates as to the savings in the reconciliation packages of the Senate and the House are $3.2 billion for the Senate, and $0.3 billion for the House. And he goes on to say clearly more savings must be achieved.

Are you in agreement that we're that far short in achieving the amount of savings that we need in these two reconciliation packages?

Dr. PENNER. Our numbers are very close, sir. It must be emphasized that this is relative to the Gradison baseline, as opposed to the usual baseline that we use. But our most recent estimates are that the House reported bill would save about $0.9 billion; the Senate about $3.7 billion.

A little higher than Mr. Miller's, in other words, but not much.

Mr. LATTA. I didn't get the House figure?

Dr. PENNER. $0.9 billion.

Mr. LATTA. So we have a considerable way to go if we are to avoid sequestration in this reconciliation package.

Dr. PENNER. Yes, sir.

COST OF NEW LEGISLATION

Mr. LATTA. Mr. Penner, in your statement, do you take into account that we've got out there the COLA's, for Social Security? They're certainly going to be coming up. Do you know that this House and this Senate will probably include the COLAS's?

Dr. PENNER. We have done calculations on that, yes, sir. Our estimate of the cost of the COLA is $0.8 billion; OMB, on the other hand, with a lower inflation rate, has a zero cost, because as you know the proposal would increase payroll taxes somewhat, so the average would be $0.4 billion.

Mr. LATTA. This figure would also be added to the deficit figure that you gave us since it's been omitted in your projection?

Dr. PENNER. It would be added to the Gradison base, yes, sir.

Mr. LATTA. Along with the new drug bill that's now on the floor of the House and is certainly going to pass this Congress?

Dr. PENNER. Yes, sir. All of our numbers took the snapshot in August, reflecting what was the law then.

Mr. LATTA. You've got some 1987 appropriations bills that are still working their way through that are higher than 1986. Are these out of your projections also?

Dr. PENNER. That is correct, sir. I should note, of course, that we're a long way from enacting any appropriation bills, but at the moment, according to our best estimates, they would add to the totals I'm talking about.

Mr. LATTA. Now, coming back to the statement you make on page 6 of your prepared statement, you say the combined effect suggests reductions from the original 1986 appropriation levels, close to 13 percent for defense, and 14 percent for nondefense programs.

Keeping in mind the answers you've just given to me and these other items, can we not reasponably expect that these high percentages will even be higher?

Dr. PENNER. If, in fact, the Congress added the sort of things you're talking about, yes, sir, that would require other programs to bear some costs.

Mr. LATTA. So in the next few days, it behooves the Congress to make some real reductions, and I stress real reductions, in the reconciliation packages?

Dr. PENNER. On net, after considering the adds that we talked about, you need $9.4 billion.

GAO ESTIMATES HIGHER DEFICIT

Mr. LATTA. Mr. Bowsher, you suggest a $4.2 billion higher deficit in 1987 than either OMB or CBO. Is this different solely because of the slower economic growth that you forecast, as opposed to the higher forecast OMB and CBO forecast?

Mr. BOWSHER. No, our $4.2 billion is higher than the average of CBO and OMB, and it is primarily because of the decisions we made in looking at their combined report on the defense outlays and on the Federal pay increase, and some of the other items in the budget.

And also, as I pointed out earlier in the hearing, some of the one time accounting changes that are being assumed here, we did not

include in our figures. So those are the main changes in our report, between the average of CBO and OMB and the GAO, which is $4.2 billion as you point out.

Mr. LATTA. That's all, Mr. Chairman.

Mr. GRAY. The gentleman from Montana, Mr. Williams.

### DEFICIT SOMEONE ELSE'S PROBLEM

Mr. WILLIAMS. Thank you, Mr. Chairman. I understand that Dr. Miller had to go to a Cabinet meeting; I came back because I wanted to ask him questions about two of his statements, one of which concerned me greatly, and I found it hard to believe the administration sent Mr. Miller to this joint committee to say what he said.

But, first, I thought that Chairman Domenici had a good round of opening questions for Mr. Miller, and they were met with one word or one line answers, and while there was some humor that went around the room, I thought I sensed kind of a tinge of irony or of understanding in the laughter, because Dr. Miller's answers were ironically significant of the attitude of the administration toward the deficit. It's kind of a hands off, laissez-faire, arms length attitude that the deficit is someone else's problem.

It was sadly ironic, if a little bit humorous. My real concern though, Chairman Gray, was Mr. Miller's response to your question concerning his recommendations about where the reconciliation bill should find the savings.

### CUT DOMESTIC PROGRAMS TO REACH TARGET

We've just been told that we need $9.4 billion in cuts in the reconciliation bill. Mr. Miller was asked where he thought the savings should come from. He said, well, a little bit from asset sales, and then they should come on the domestic side.

Now, I trust, Mr. Chairman, that that was not lost on the members of this committee, and that is that the adminitration sent its representative to this important meeting on Gramm-Rudman-Hollings to say that the savings could come only on the domestic side, and not in defense, not a nickel in defense. Perhaps $9.5 billion on the domestic side, and not a nickel in defense.

It's difficult for me to believe that Mr. Miller came here to say that, but he did say it. And I personally think that it's an outrageous statement, one that there isn't a thimble full of votes for in the Congress of the United States, and there isn't a hatful of support for among the citizenry of the United States.

And yet, this administration still believes that a Pentagon which is gagging down $650,000 a minute shouldn't receive a penny of cut in this reconciliation bill. I simply wanted to ask Mr. Miller if he meant what he said, but I assume given the White House's record in cuts on the domestic side, and increases for defense, that he probably would have said that he meant just what he stated to us.

Mr. GRAY. The gentleman from Colorado, Mr. Brown.

### DEFENSE SPENDING RATES

Mr. BROWN. Thank you, Mr. Chairman.

I'd like to direct this to Dr. Penner, but perhaps the others would want to comment also. Dr. Penner, looking at the GAO report, they summarize OMB and CBO's analysis and point out the areas of difference. One of areas of most significant difference appears under defense programs, the category subject to across-the-board reduction. Obviously we all understand the different conclusions folks can reach using different economic assumptions, which, of course, is a portion of what's involved here.

But how would that $9.3 billion difference come about? It looks like part of that is simply an assumption of what fits into the category.

Dr. PENNER. No, sir, there are really two main reasons for it. One involves an estimate of how fast the Pentagon spends the spending authority that it has today. We base our estimates on the historical experience. OMB suggests that in 1987 they'll spend a little more slowly than the historical experience implies.

The second reason does involve a conceptual difference and that is how you handle the President's proposed pay raise in the Gramm-Rudman-Hollings base. Our interpretation of the law, and GAO's, is that it was permissible to use the recommendations in the President's mid-session review as the best evidence of the President's proposal in that regard.

OMB did not put any money in for the Presidential pay raise.

Mr. BROWN. But the point is the law is vague on this point as to which category it falls into?

Dr. PENNER. Vague enough to get two different interpretations, yes, sir.

Mr. MURIS. There is a third difference as well. OMB's first year spend out rates in defense are slower than CBO's. Relative to all else, our spend out rates from obligated balances are faster, which is why you see a little higher amount for OMB in the exempt from sequestration category.

Mr. BOWSHER. Mr. Congressman, if I could just add to it, that is in January when we looked at the spend out rates used by OMB and CBO, we saw a difference at that time. We had a difficult time trying to figure out some of the estimates from the Defense Department, and so in the final analysis, we went with the average of the two.

This year, as we looked at them, and as we say in the report, in 1986 it's been spending out even greater than what CBO had been forecasting for 1986.

So this time instead of taking the average, GAO selected the CBO, wnich is based generally on an across-the-board historic record at DOD.

Now, the people at defense are trying to do some management changes, but what they're really doing is pushing expenditures into the next fiscal year in many of the things that they're doing.

So that's why we go with the CBO estimate on these defense spending rates.

### MANAGING OUTLAYS NOT DONE

Mr. BROWN. One of the amendments to the defense bill in the House was to add a limitation on outlays during the year, in addi-

tion to the authorization limit. Would any of you have an observation as to how useful that might be?

Dr. PENNER. Managing outlays is simply something that we have not traditionally done in the Federal Government. It would involve a very elaborate management system. Obviously the difficulty involved would vary directly with how much you would want to reduce outlays below what you would otherwise expect they would be.

So, for example, if you wanted to lower them by $1 billion, that wouldn't be too hard in something as big as the Defense Department. But if you wanted to lower them by a major amount, it would be extremely difficult, and perhaps even impossible without a very elaborate new management system, which would take a couple of years to impose.

I think there is a further question as to whether you would want to do that. There are ways of accomplishing it. You can pay your bills later; you can do a variety of things; but some of them would involve inefficiencies. Moreover, if you pay your bills later, obviously eventually the private contractors are going to ask for more money to do whatever they do.

So there are really two questions: How practical is it, and how desirable is it?

Mr. MURIS. I think two points are appropriate. The difference between historical rates, and the amount in the budget resolution, is now a small amount in percentage terms. If we look at predictions based on historical rates, although they are generally accurate, they are often off by a few percent, and that is the margin of error that we're within now.

Second, there are some steps that could be taken, such as more rigorous compliance with the Prompt Payment Act, that would result in some slowdown in outlays.

### ADMINISTRATION CAN CONTROL OUTLAYS

Mr. BROWN. Just one last question. I know there's a legimate debate over how fast this will spend out. And the administration has always responded, look, we're the ones in charge of it, we're the ones who handle it. You should take our estimate, because we control it.

I've thought there's some logic in that. Do I understand the administration is committing themselves, though, to a position that the outlays will not come in above their estimate?

Mr. MURIS. The administration has made no such commitment, but it has said that we can control outlays. Again we're talking about $270–$280 billion in estimated outlays. The difference with CBO in our estimate for fiscal year 1986 was a little over 1 percent. We are talking about small percentage differences. And I think that's important to say.

Mr. BROWN. But I think the important point is the administration, while they've suggested that's a proper figure, has not said we're going to commit to not come in over that figure.

Mr. MURIS. That is correct.

Mr. BROWN. Thank you.

Chairman DOMENICI. Thank you, Representative Brown. Chairman Gray?

### DOMESTIC CUTS ONLY UNREALISTIC

Mr. GRAY. Mr. Chairman, I have no further questions of the panel. I think it's been informative to get the views of Mr. Penner, of the GAO and Mr. Bowsher, and also Mr. Miller.

I must admit in conclusion I was quite shocked at the response of the administration to your questions, as well as to the question about expecting to get under the threshhold only on the domestic side.

I think that's practically and politically very unreasonable, and I would just simply hope that the administration understands that the failure to get under the threshhold by October 1 would mean a $9.5 billion reduction in one of its programs that it considers very important, defense, as well as $9.5 billion on the domestic side.

And to believe, as Mr. Miller has said to us, that you can build a political consensus by making the $9.5 billion reduction only on the domestic side I think is rather unreasonable, and hopefully the administration's viewpoint will change as they understand the stakes that are out there, between now and October 1.

I want to thank Chairman Domenici for convening the joint session, and look forward to continuing working with our colleagues in the Senate in addressing this problem.

### RECONCILIATION WILL NOT CHANGE APPROPRIATED ACCOUNTS

Chairman DOMENICI. Let me first make this observation. You certainly need not apologize for yesterday's delay, and you did that publicly here, and I appreciate it. We all have scheduling problems, and I thank you for your consideration.

Let me just address the last issue that the chairman of the House Budget Committee addressed. I have a slightly different version. I don't believe anything in the reconciliation bill is going to address the issue of appropriated accounts that are within any of the 13 subcommittee bills. I don't know anybody that's going around trying to put in reconciliation a major change in the appropriated accounts.

Consequently, I do believe that reconciliation is going to stand on its own, and that at some event it will occur thereafter, with reference to the domestic accounts that are part of the appropriation process, and the defense appropriation bill.

So it does not, and as it concerns you, Chairman Gray, with reference to how we are going to get there, it doesn't concern me in the same way, because I believe you will have one set of savings and or revenues and or asset sales that will be reconciliation, and then, even though the time is short, the confronations will occur with reference to the appropriated accounts.

And I believe the appropriated accounts on defense are obviously in some sort of state of objectivity, because it's either the House or the Senate's assumed levels. And somewhere, hopefully from our standpoint the Senate's level, but somewhere in between is what will occur.

So I don't think the response that we got to get the savings out of domestic mean that we won't be looking at the appropriated accounts and figure where are they going to be, and in that process make some temporary decision on where we're going to be on the defense appropriation bill.

I want to repeat, it may sound like something that is not necessarily germane, but I do believe that we ought to try, Chairman Gray, to encourage our colleagues and the White House to go with individual appropriation bills. They've worked hard on them, and I think we ought to try to get them passed. And I believe within a framework of reasonable fiscal policy that we would not be substantially adding to the deficit if we went that course, and for once it might really help with some management.

And it isn't good to not appropriate and then have a continuing resolution and come back in January or February and undo it all; I would like to see it occur. If it calls $2 billion, we ought to try to find that some place, if necessary, and I believe we could.

But now there's so many unknowns floating around that it's pretty tough to know what we ought to shoot for in the reconciliation.

### SEQUESTER A DISASTER

I do share the concern, perhaps from a slightly different angle. I really believe it would be a disaster for this country if we had a sequester in October anywhere close to what is contemplated, that took anywhere from $7 to $10 billion in outlays out of defense. You'd double that on the programmatic side, I think a $20 billion reduction is a gigantic step backward from the standpoint of the military build-up, and I'm going to do what I can to avoid a sequester in a prudent way. I'm sure you'll feel the same way about avoiding a sequester, Chairman Gray, and I'm sure everybody else around here does.

I want to close by saying nonetheless I believe the U.S. Congress should vote out a temporary sequester. I believe in the next 5, 6, 7 days, working days, we ought to vote it out and send it to the President, and let it get signed.

I believe it would put in place the real, that real situation, that our failure to solve this problem yields that, a dramatic cut in domestic and defense programs, and then that will be two things: our commitment to Gramm-Rudman-Hollings, and, second, the leverage for us to do something reasonable to see that it's set aside, and that we don't need the permanent sequester in October.

Thank you very much. We stand adjourned.

[Whereupon, at 1:45 p.m. the Temporary Joint Committee stood in recess.]

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